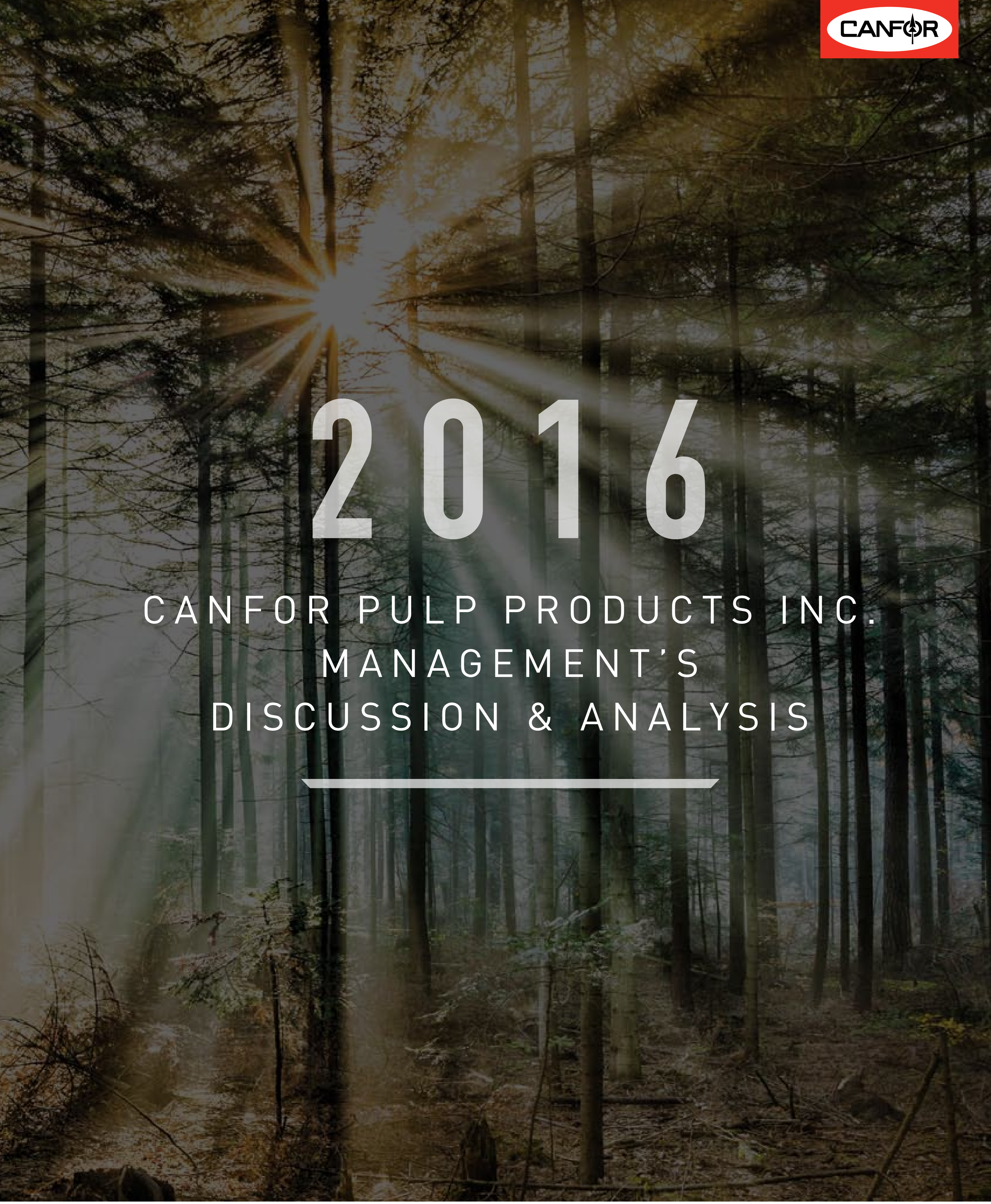


2016

CANFOR PULP PRODUCTS INC.
MANAGEMENT'S DISCUSSION & ANALYSIS

2016 MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the year ended December 31, 2016 relative to the year ended December 31, 2015, and the financial position of the Company at December 31, 2016. It should be read in conjunction with CPPI's Annual Information Form and its audited consolidated financial statements and accompanying notes for the years ended December 31, 2016 and 2015. The financial information contained in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income before Amortization which CPPI considers to be a relevant indicator for measuring trends in the Company's performance and its ability to generate funds to meet its debt service and capital expenditure requirements, and to pay dividends. Reference is also made to Adjusted Net Income (Loss) (calculated as Net Income (Loss) less specific items affecting comparability with prior periods – for the full calculation, see reconciliation included in the section "Analysis of Specific Material Items Affecting Comparability of Net Income (Loss)") and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by weighted average number of shares outstanding during the period). Operating Income before Amortization, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, CPPI's Operating Income before Amortization, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income before Amortization to Operating Income (loss) and Adjusted Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in this MD&A.

Factors that could impact future operations are also discussed. These factors may be influenced by known and unknown risks and uncertainties that could cause the actual results to be materially different from those stated in this discussion. Factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions; product selling prices; raw material and operating costs; currency exchange rates; interest rates; changes in law and public policy; the outcome of labour and trade disputes; and opportunities available to or pursued by CPPI.

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at February 8, 2017.

<u>Forward Looking Statements</u>

Certain statements in this MD&A constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

COMPANY OVERVIEW

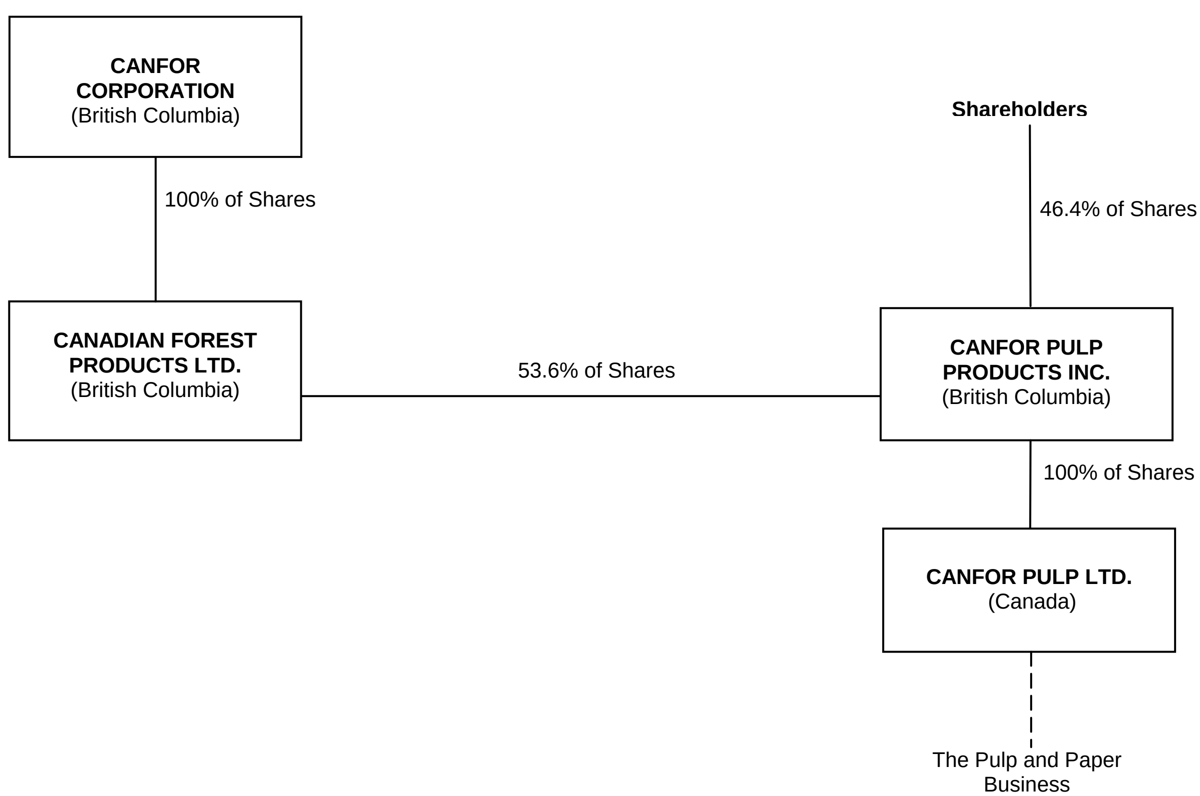
CPPI is a company incorporated and domiciled in Canada and listed on The Toronto Stock Exchange. The consolidated financial statements of the Company as at and for the year ended December 31, 2016 comprise the Company and its subsidiary entities. The Company's operations consist of two Northern Bleached Softwood Kraft ("NBSK") pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia, a Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill located in Taylor, British Columbia and a marketing group based in Vancouver, British Columbia.

At December 31, 2016, Canfor Corporation ("Canfor") held a 53.6% interest in CPPI, an increase of 1.7% from December 31, 2015 as a result of CPPI's share purchases in 2016 under a Normal Course Issuer Bid. Further discussion of the Normal Course Issuer Bid is provided in the "Liquidity and Financial Requirements" section of this document.

CPPI employs 1,266 people in its wholly owned subsidiaries and jointly owned operations as at December 31, 2016.

The following chart illustrates, on a simplified basis, the ownership structure of CPPI (collectively the Company) as at December 31, 2016.

Simplified Ownership Structure



Pulp

The Company owns and operates three NBSK pulp mills with annual capacity to produce approximately 1.1 million tonnes of northern softwood market kraft pulp, 85% of which is bleached to become NBSK pulp, and approximately 140,000 tonnes of kraft paper.

The Northwood pulp mill is a two line mill with annual production capacity of approximately 600,000 tonnes of NBSK pulp, making it the largest NBSK pulp facility in North America. Northwood's pulp is used to make a variety of products including printing and writing paper, tissue and specialty papers and is primarily delivered to customers in North America and Asia.

The Intercontinental pulp mill is a single line pulp mill with annual production capacity of approximately 320,000 tonnes of NBSK pulp. Intercontinental's pulp is used to make substantially the same product as that of Northwood and is delivered to the same markets.

The Prince George pulp and paper mill is an integrated two line pulp and paper mill with an annual market pulp production capacity of approximately 150,000 tonnes. The Prince George pulp and paper mill supplies pulp markets in North America, Europe, Asia, and its internal paper making facilities.

On January 30, 2015, the Company purchased from Canfor, the Taylor pulp mill which has an annual capacity of 220,000 tonnes of BCTMP. The Taylor pulp mill supplies pulp markets in North America and Asia. Further discussion of the purchase is provided in "Transactions with Related Parties", later in this document.

Paper

CPPI's paper machine, located at the Prince George pulp and paper mill, has an annual production capacity of approximately 140,000 tonnes of kraft paper. The Prince George pulp and paper mill produces high performance papers, bleached and unbleached kraft and specialty papers. The paper mill supplies primarily North American and European markets.

Business Strategy

The Company's overall business strategy is to be a pulp and paper industry leader with strong financial performance accomplished through:

- Preserving its low-cost operating position,
- Maintaining the premium quality of its products,
- Growing the green energy business,
- Developing an enterprise-wide culture of safety, innovation and engagement, and
- Capitalizing on attractive growth opportunities.

OVERVIEW OF 2016

CPPI had a solid year in 2016, with operating income of $98.2 million and a return on invested capital of 13%.

Global pulp demand was relatively stable in 2016 while global inventory levels were on the high end of the balanced range, reflecting slowly increasing pulp capacity through 2016. NBSK pulp list prices to China averaged US$599 per tonne for the year, US$45 per tonne lower than in 2015. BCTMP markets remained under significant pressure through the first half of 2016, but a price recovery in the second half of 2016 resulted in US-dollar prices being broadly in line with the previous year. A 4% weaker Canadian dollar offset part of the impact from the lower NBSK pulp US-dollar prices and, to a lesser extent, higher NBSK pulp shipments in 2016 to lower-margin regions.

Operating results for the pulp segment were down $47.4 million from the previous year, mostly due to the aforementioned lower NBSK pulp unit sales realizations, and, to a lesser extent, weather related logistics challenges that impacted shipments around year end. Excluding weather-related disruptions, productivity was in line with the prior year, while fibre costs showed a small improvement, primarily due to lower prices for delivered sawmill residual chips and a lower proportion of higher-cost whole log chips. The favourable BCTMP pricing in the third and fourth quarters of 2016 combined with a 4% weaker Canadian dollar, enabled the Taylor pulp mill to deliver improved operating results in 2016 compared to 2015.

The Company's energy business and its power generation continued to grow in 2016 with the turbines at all three NBSK pulp mills now operating and selling power. The last of these at the Intercontinental pulp mill was completed in early 2015 and started selling power in April 2015. With all three turbines operating, the Company is projecting further incremental benefits of these green energy projects into 2017.

The Company's paper business performed well in 2016, continuing on from its strong operating performance in the prior year, as lower slush pulp costs more than offset a slight decrease in paper unit sales realizations. Reduced costs for slush pulp reflected lower global softwood pulp prices, while a moderate decrease in US-dollar kraft paper prices more than offset the favourable movement of the Canadian dollar.

During 2016, CPPI and Licella Fibre Fuel Pty Ltd. ("Licella") agreed to form a joint venture under the name Licella Pulp Joint Venture to investigate opportunities to integrate Licella's Catalytic Hydrothermal Reactor platform into CPPI's pulp mills to economically convert biomass into next generation biofuels and biochemicals. Licella is a subsidiary of Ignite Energy Resources Ltd. ("IER") an Australian energy technology development company. This additional residue stream refining would allow the Company to further optimize pulp production capacity. This agreement follows a successful program of preliminary trials conducted on feedstock from the Company at Licella's pilot plants located in New South Wales, Australia, in which wood residue streams from CPPI's kraft process were successfully converted into a stable biocrude oil. In conjunction with the joint venture agreement, CPPI provided a $7.0 million convertible credit facility to IER, the parent company of Licella, which matures on June 21, 2019. In 2016, the Company's net income included the pre-tax write-down of $7.0 million of advances made in connection with the biofuels initiative to Licella. Notwithstanding the future benefits that may result from this innovative effort, the write-down reflected the research and development nature of the advances.

During 2016, the Company continued to repurchase shares under its Normal Course Issuer Bid, repurchasing just over 2.2 million common shares, or approximately 3.3% of the Company's share capital in 2016. Through 2016, the Company also continued its quarterly dividends of $0.0625 per common share, returning a total of $16.9 million to shareholders in the year.

The Company maintained its strong balance sheet through the year, finishing the year with net cash of $1.9 million and a net debt to total capitalization ratio of (0.4)%.

A review of the more significant developments and results by operating segment in 2016 follows.

Markets and Pricing

(i) Pulp – Global market supply pressures contribute to weaker price environment in 2016 despite favourable currency movements

Global softwood pulp markets saw moderate downward pressure on average NBSK pulp list prices to China throughout 2016, despite a slight rebound in prices in the second quarter of 2016. While overall global pulp demand was steady, additional hardwood pulp capacity was absorbed into global markets, particularly China, during the year. Global shipments of bleached softwood kraft pulp were up slightly in 2016 compared to 2015, primarily to China where shipment levels were well above trend. Globally, softwood pulp producer inventories increased in the first quarter of 2016 with limited industry maintenance downtime, then fell through the spring maintenance period in the second quarter of 2016. Thereafter, inventories remained at, or slightly above, the high end of the balanced range through the second half of 2016.

The benchmark China NBSK pulp list price averaged US$599 per tonne[1] in 2016, down US$45 per tonne, or 7%, from the prior year. This was offset in part by a 4% weaker Canadian dollar, resulting in an overall decline in NBSK pulp sales realizations in Canadian dollar terms.

[1] Resource Information Systems, Inc.

The following charts show the NBSK pulp list price movements in 2016 before taking account of customer discounts and rebates (Chart 1), and the global pulp inventory levels (Chart 2).

Chart 1

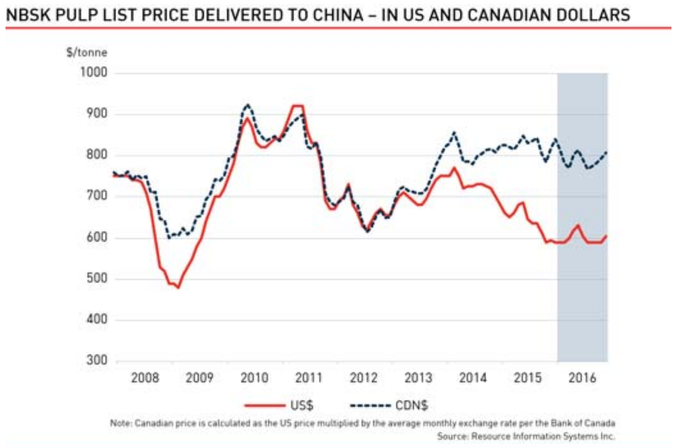
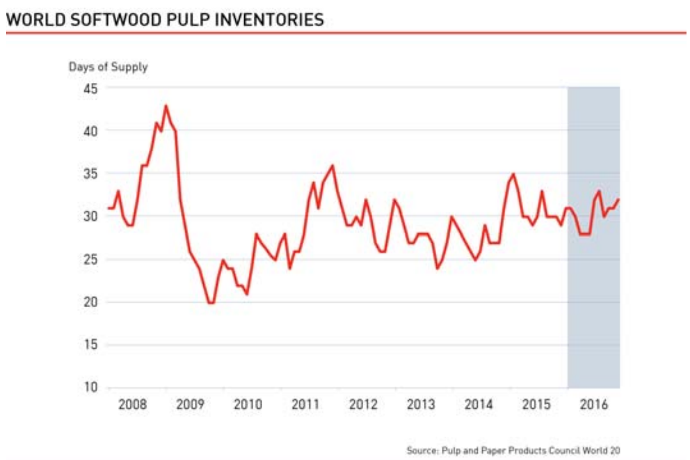


Chart 2



Since the beginning of 2014, CPPI's sales network has represented and co-marketed UPM-Kymmene ("UPM") pulp products in North America and Japan, while UPM's pulp sales network represented and co-marketed CPPI's products in Europe and China, as part of a strategic sales and marketing cooperation agreement with UPM. This arrangement has been working well for both parties, allowing both CPPI and UPM to sell a broader offering of pulp products and offering enhanced technical service to customers.

(ii) Paper - Continued pressure in kraft paper markets in 2016 in spite of boost from weaker Canadian dollar

Downward pressure on kraft bleached paper markets, which commenced in the latter half of 2015, continued in 2016. The North American market experienced weakness particularly in the first half of 2016, while the China market showed some indicators of improvement in 2016 after a weak 2015. The lower kraft bleached paper prices were partly offset by the benefits of the weaker Canadian dollar in 2016.

Capital and Operations Review

Maintaining steady operational performance and strong balance sheet in light of market pressures and weather challenges

Notwithstanding the global softwood pulp market pressures, total pulp production in 2016 was in line with 2015, with higher BCTMP production reflecting a full year's production at the Taylor pulp mill (11 months in 2015) and a modest improvement in productivity through most of the year, offsetting the impact to operations in late 2016 from inclement weather conditions in British Columbia. Kraft paper production in 2016 was also broadly in line with 2015, reflecting a slight increase in productivity offset by additional scheduled maintenance days in 2016. Scheduled maintenance outages were completed on time at all facilities in 2016.

The Company maintained its strong balance sheet position in 2016, finishing the year with a positive net cash position. In addition to solid cash earnings generated for the 2016 year, the Company's cash from operations also included a reduction in non-cash working capital, in part reflecting the Company's continued focus on inventory management. Discretionary capital spending continued to prioritize operational excellence, with asset reliability and energy generation remaining key focus areas.

OVERVIEW OF CONSOLIDATED RESULTS – 2016 COMPARED TO 2015

Selected Financial Information and Statistics

(millions of Canadian dollars, except for per share amounts)	2016	2015
Sales	**$ 1,101.9**	$ 1,174.7
Operating income before amortization[2]	**$ 172.0**	$ 208.4
Operating income	**$ 98.2**	$ 143.2
Loss on derivative financial instruments[3]	**$ -**	$ (8.8)
Net income	**$ 57.8**	$ 106.6
Net income per share, basic and diluted	**$ 0.86**	$ 1.52
ROIC – Consolidated[4]	**13.0%**	23.0%
Average exchange rate (US$ per C$1.00)[5]	**$ 0.755**	$ 0.782

[2] Amortization includes certain capitalized major maintenance costs.
[3] Includes gains (losses) from foreign exchange, energy, pulp futures and interest rate swap derivatives (see "Unallocated and Other Items" section for more details).
[4] Consolidated Return on Invested Capital ("ROIC") is equal to operating income/loss, plus realized gains/losses on derivatives and other income/expense, divided by the average invested capital during the year. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital.
[5] Source – Bank of Canada (average noon rate for the period).

(millions of Canadian dollars)	2016	2015
Operating income (loss) by segment:		
Pulp	**$ 79.6**	$ 127.0
Paper	**$ 29.7**	$ 27.6
Unallocated	**$ (11.1)**	$ (11.4)
Total operating income	**$ 98.2**	$ 143.2
Add: Amortization	**$ 73.8**	$ 65.2
Total operating income before amortization[6]	**$ 172.0**	$ 208.4
Add (deduct):		
Working capital movements	**$ 19.0**	$ (32.9)
Defined benefit pension plan contributions	**$ (8.3)**	$ (3.9)
Income taxes paid, net	**$ (33.6)**	$ (36.0)
Other operating cash flows, net	**$ 0.9**	$ 9.8
Cash from operating activities	**$ 150.0**	$ 145.4
Add (deduct):		
Dividends paid	**$ (16.9)**	$ (96.5)
Finance expenses paid	**$ (3.2)**	$ (2.7)
Capital additions, net	**$ (64.0)**	$ (68.3)
Advances to Licella	**$ (7.0)**	$ -
Acquisition of Taylor pulp mill	**$ -**	$ (12.6)
Share purchases	**$ (24.7)**	$ (25.3)
Other, net	**$ 0.2**	$ 0.7
Change in cash / operating loans	**$ 34.4**	$ (59.3)

[6] Amortization includes certain capitalized major maintenance costs.

Analysis of Specific Items Affecting Comparability of Net Income

After-tax impact (millions of Canadian dollars, except for per share amounts)		2016		2015
Net income, as reported	**$**	**57.8**	$	106.6
Loss on derivative financial instruments	**$**	**-**	$	6.5
Mark-to-market gain on Taylor pulp mill contingent consideration[7]	**$**	**-**	$	(1.3)
Net impact of above items	**$**	**-**	$	5.2
Adjusted net income	**$**	**57.8**	$	111.8
Net income per share (EPS), as reported	**$**	**0.86**	$	1.52
Net impact of above items per share	**$**	**-**	$	0.07
Adjusted net income per share	**$**	**0.86**	$	1.59

[7] As part of the purchase of the Taylor pulp mill on January 30, 2015, CPPI may pay contingent consideration based on the Taylor pulp mill's future earnings over a three year period. On the acquisition date, the contingent consideration was valued at $1.8 million. During 2015, the contingent consideration liability was revalued to nil, resulting in a gain of $1.8 million (before tax) recorded to Other Income (see further discussion in the "Acquisition of Taylor pulp mill" section).

The Company recorded net income of $57.8 million, or $0.86 per share, for the year ended December 31, 2016, a decrease of $48.8 million, or $0.66 per share, from $106.6 million, or $1.52 per share, reported for the year ended December 31, 2015.

Operating income for 2016 was $98.2 million, down $45.0 million from operating income of $143.2 million for 2015. These results primarily reflect decreases in NBSK pulp and kraft paper sales realizations, as the favourable impact of the weaker Canadian dollar was more than offset by the decline in US-dollar NBSK pulp and kraft paper prices, combined with a decline in pulp shipment volumes, primarily due to the weather-related delays in vessel shipments around year end. Excluding weather-related disruptions, productivity was in line with the prior year, while fibre costs were favourable in 2016, primarily due to lower prices for delivered sawmill residual chips and a lower proportion of higher-cost whole log chips. BCTMP sales realizations were in line with the previous year.

A more detailed review of the Company's operational performance and results is provided in "Operating Results by Business Segment – 2016 compared to 2015", which follows this overview of consolidated results.

OPERATING RESULTS BY BUSINESS SEGMENT – 2016 COMPARED TO 2015

The following discussion of CPPI's operating results relates to the operating segments and the non-segmented items as per the Segmented Information note in the Company's consolidated financial statements.

CPPI's operations include the Pulp and Paper segments.

Pulp

Selected Financial Information and Statistics – Pulp

Summarized results for the Pulp segment for 2016 and 2015 are as follows:

(millions of Canadian dollars, unless otherwise noted)		2016		2015
Sales	**$**	**924.2**	$	1,006.1
Operating income before amortization[8]	**$**	**149.5**	$	188.5
Operating income	**$**	**79.6**	$	127.0
Capital expenditures	**$**	**60.9**	$	62.5
Average NBSK pulp price delivered to China - US$[9]	**$**	**599**	$	644
Average NBSK pulp price delivered to China – Cdn$[9]	**$**	**794**	$	824
Production – pulp (000 mt)[10]		**1,217.9**		1,215.4
Shipments – pulp (000 mt)[10]		**1,201.5**		1,227.6
Marketed on behalf of Canfor (000 mt)		**-**		15.2

[8] Amortization includes certain capitalized major maintenance costs.

[9] Per tonne, NBSK pulp list price delivered to China (Resource Information Systems, Inc). Average NBSK pulp price delivered to China in Cdn$ calculated as average pulp price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada average noon rate for the period.

[10] Pulp production and shipment volumes in 2015 include BCTMP volumes subsequent to CPPI's acquisition of the Taylor BCTMP mill on January 30, 2015 (See further discussion in the "Acquisition of Taylor pulp mill" section). Following the acquisition, CPPI no longer markets any product on behalf of Canfor.

Overview

The Pulp segment reported operating income of $79.6 million for 2016, down $47.4 million from $127.0 million in 2015. These results were mostly due to lower NBSK pulp sales realizations, and to a lesser extent weather-related logistics challenges that impacted shipments around the 2016 year end. Excluding weather-related disruptions, productivity was in line with the prior year, while unit fibre costs showed a small improvement, primarily due to lower prices for delivered sawmill residual chips and a lower proportion of higher-cost whole log chips.

Markets

As mentioned above, global softwood pulp markets saw moderate downward pressure on average NBSK pulp list prices to China through 2016, despite a slight rebound in prices in the second quarter of 2016. While overall global pulp demand was steady additional hardwood pulp capacity was absorbed into global markets, particularly China, during the year. Global shipments of bleached softwood kraft pulp were up slightly in 2016 compared to 2015, primarily to China where shipment levels were well above trend.

At the end of December 2016, World 20[11] producers of bleached softwood pulp inventories were at 32 days' supply, just above the balanced range. By comparison, December 2015 inventories were at 29 days' supply. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Sales

The Company's pulp shipments in 2016 were 1,201,500 tonnes, down 26,100 tonnes, or 2%, from 2015. Lower pulp shipments reflected the slippage of a vessel shipment to Asia into January 2017, combined with an overall decrease in NBSK pulp shipments to North America through the 2016 year. BCTMP shipments made up approximately 18% of total pulp shipments for 2016, up 2% from 2015, reflecting a full year of the Taylor pulp mill's shipments.

[11] World 20 data is based on twenty producing countries representing 80% of the world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council ("PPPC").

As mentioned, China NBSK pulp list prices averaged US$599 per tonne in 2016, down US$45 per tonne, or 7%. Average NBSK pulp unit sales realizations were moderately lower in 2016 largely reflecting the lower list price to China and a lower-value regional sales mix, which outweighed the benefit of the 4% weaker Canadian dollar in 2016. Average BCTMP unit sales realizations were broadly in line with 2015, reflecting a challenging BCTMP market in the first half of the year, which was offset by favourable improvements in BCTMP markets in the second half of the year, combined with the benefit of the weaker Canadian dollar.

During 2016, the Company experienced its first full year of generating power at all three of its NBSK pulp mills, after the Intercontinental pulp mill turbine started selling power in April 2015 and following the ramp-up of the Northwood pulp mill turbines in the previous year. As a result of these green energy projects, the Company's energy business saw a modest increase in power generation in 2016, which was offset by weather-related operational challenges in the fourth quarter. The Company is projecting further incremental benefits of these green energy projects into 2017.

Operations

Pulp production in 2016, at 1,217,900 tonnes, was consistent with that produced in 2015. NBSK pulp production saw a slight decrease compared to 2015, primarily due to lower operating rates, particularly in the fourth quarter of 2016 as a result of severe cold weather challenges. 2016 was the Company's first full year of BCTMP production following the acquisition of the Taylor pulp mill on January 30, 2015. This incremental production, combined with modest improvements in operating rates, resulted in increased BCTMP production when compared to 2015.

Pulp unit manufacturing costs were slightly lower compared to 2015 principally due to moderately lower fibre costs, as pulp unit conversion costs were broadly in line with the prior year. The decrease in fibre costs compared to 2015 reflected lower market prices for delivered sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) combined with a significant increase in the proportion of lower-cost sawmill residual chips, mostly due to additional chips supplied by Canfor.

Paper

Selected Financial Information and Statistics – Paper

Summarized results for the Paper segment for 2016 and 2015 are as follows:

(millions of Canadian dollars, unless otherwise noted)		2016		2015
Sales	**$**	**176.1**	$	166.7
Operating income before amortization[12]	**$**	**33.5**	$	31.2
Operating income	**$**	**29.7**	$	27.6
Capital expenditures	**$**	**1.7**	$	5.8
Production – paper (000 mt)		**135.8**		136.8
Shipments – paper (000 mt)		**142.5**		133.4

[12] Amortization includes certain capitalized major maintenance costs.

Overview

Operating income for the paper segment was $29.7 million for 2016 representing a $2.1 million increase from the prior year. This increase in operating income reflected modestly lower paper unit manufacturing costs, due to a decline in slush pulp costs, combined with higher prime bleached shipments. These factors were partially offset by a slight decrease in paper unit sales realizations, as the weaker Canadian dollar was more than offset by a decline in US-dollar kraft paper prices.

Markets

As mentioned above, downward pressure on kraft bleached paper markets continued in 2016. The North American market experienced weakness particularly in the first half of 2016, while the China market recovered somewhat after a weak 2015. Lower kraft bleached paper prices were partly offset by the benefits of the weaker Canadian dollar in 2016. The Paper Shipping Sack Manufacturers' Association ("PSSMA") reported total sack paper shipments to the US were down 5.5% compared to 2015.

Sales

The Company's paper shipments in 2016 were 142,500 tonnes, an increase of 9,100 tonnes, or 7%, from 2015, principally the result of higher volumes sold to North America. The Company's prime bleached paper shipments, which attract higher prices, in 2016 represented 86% of prime sales volumes, up 1% from 2015. Paper unit sales realizations decreased slightly in 2016, reflecting the decline in US-dollar kraft paper prices, offset in part, by the favourable impact of the weaker Canadian dollar as well as the proportionately higher prime bleached shipments.

Operations

Paper production in 2016 was 135,800 tonnes, broadly in line with 2015. This reflects a slight increase in operating rates offset by additional scheduled maintenance days in 2016. Paper unit manufacturing costs were modestly lower compared to 2015, reflecting a moderate decrease in slush pulp costs (linked to lower Canadian dollar market pulp prices), offset in part, by higher maintenance and increased cost of chemicals in 2016.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)		2016		2015
Corporate costs	**$**	**(11.1)**	$	(11.4)
Finance expense, net	**$**	**(6.6)**	$	(6.0)
Loss on derivative financial instruments	**$**	**-**	$	(8.8)
Other income (expense), net	**$**	**(10.4)**	$	14.5

Corporate Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were $11.1 million in 2016, down slightly from the prior year.

Finance Income and Expense

Net finance expense for 2016 was $6.6 million, up $0.6 million from 2015. The increase principally reflected higher interest earned in 2015 combined with one-time credit facility fees to extend the maturity of the operating loan in 2016 (see further discussion in the "Liquidity and Financial Requirements" section). Interest expense is reported net of interest income.

Loss on Derivative Financial Instruments

From time to time, the Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, energy costs, interest rates and pulp prices.

In 2016, the Company had no derivative financial instruments outstanding. In 2015, the Company recorded a net loss of $8.8 million related to its derivative financial instruments, principally reflecting realized losses on the Company's foreign exchange and crude oil collars as a result of the significant declines in the Canadian dollar and oil prices through 2015.

Additional information on the derivative financial instruments in place at year end can be found in the "Liquidity and Financial Requirements" section, later in this document.

Other Income (Expense), Net

Net other expense for 2016 of $10.4 million includes the $7.0 million write-down of research and development related advances to Licella, combined with unfavourable foreign exchange movements on US-dollar denominated cash, receivables and payables (see further discussion in the "Licella Pulp Joint Venture" section). In 2015, net other income included favourable foreign exchange movements on US-dollar denominated working capital balances combined with a $1.8 million mark-to-market gain related to the Taylor pulp mill contingent consideration liability, reflecting lower forecast BCTMP prices over the contingent consideration period (see further discussion in the "Acquisition of Taylor pulp mill" section).

Licella Pulp Joint Venture

On May 27, 2016, CPPI and Licella agreed to form a joint venture under the name Licella Pulp Joint Venture to investigate opportunities to integrate Licella's Catalytic Hydrothermal Reactor platform into CPPI's pulp mills to economically convert biomass into next generation biofuels and biochemicals. Licella is a subsidiary of IER an Australian energy technology development company. This additional residue stream refining would allow the Company to further optimize pulp production capacity. This agreement follows a successful program of preliminary trials conducted on feedstock from the Company at Licella's pilot plants located in New South Wales, Australia, in which wood residue streams from CPPI's kraft process were successfully converted into a stable biocrude oil. In conjunction with the joint venture agreement, CPPI provided a $7.0 million convertible credit facility to IER, the parent company of Licella, which matures on June 21, 2019. In 2016, the Company's net income included the pre-tax write-down of $7.0 million of advances made in connection with the biofuels initiative to Licella. Notwithstanding the future benefits that may result from this innovative effort, the write-down reflected the research and development nature of the advances.

Income Tax Expense

The Company recorded an income tax expense of $23.4 million in 2016 with an overall effective tax rate of 29% (2015 - 25%).

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

(millions of Canadian dollars)		**2016**		2015
Net income before income taxes	**$**	**81.2**	$	142.9
Income tax expense at statutory rate of 26%	**$**	**(21.1)**	$	(37.2)
Add (deduct):				
Permanent difference from capital gains and other non-deductible items		**(1.8)**		(0.1)
Entities with different income tax rates and other tax adjustments		**(0.5)**		1.0
Income tax expense	**$**	**(23.4)**	$	(36.3)

Other Comprehensive Income (Loss)

CPPI measures its accrued benefit obligations and the fair value of plan assets for accounting purposes at the end of each quarter. Any actuarial gains or losses which arise are recognized immediately by means of a credit or charge through Other Comprehensive Income. For 2016, an after-tax loss of $11.5 million was recorded in Other Comprehensive Income, including losses on the defined benefit pension plans and the other non-pension post-employment benefits. The losses in 2016 largely reflected a decrease in the discount rate used to value the net defined benefit obligation, combined with unfavourable actuarial experience adjustments in the pension plans and a return on pension plan assets less than the discount rate.

In addition, in 2016, the Company purchased $33.7 million of annuities through its defined benefit plans to mitigate its exposure to the future volatility in the related pension obligations, taking total annuities purchased by the Company in the last three years to approximately $39.8 million. As at December 31, 2016, 24% of the defined benefit pension plan obligations were fully hedged against changes in future discount rates and longevity risk (potential increases in life expectancy of plan members). A further 46% was partially hedged against changes in future discount rates through the plan's investment in debt securities. At purchase of these annuities, transaction costs of $3.6 million were recognized in Other Comprehensive Income principally reflecting the difference in the annuity rate (which is comparable to solvency rates) as compared to the discount rate used to value the pension obligations on a going concern basis.

In 2015, the after-tax gain of $5.6 million recorded to Other Comprehensive Income largely reflected a higher discount rate used to value the net defined benefit obligation and a return on pension plan assets greater than the discount rate coupled with a reduction in the medical claims cost assumptions in the non-pension post-employment plans.

SUMMARY OF FINANCIAL POSITION

The following table summarizes CPPI's financial position as at December 31, 2016 and 2015:

(millions of Canadian dollars, except for ratios)	2016	2015
Cash and cash equivalents	**$ 51.9**	$ 17.5
Operating working capital	**138.9**	146.4
Net working capital	**190.8**	163.9
Property, plant and equipment	**518.7**	532.3
Other long-term assets	**2.2**	0.9
Net assets	**$ 711.7**	$ 697.1
Long-term debt	**$ 50.0**	$ 50.0
Retirement benefit obligations	**109.1**	93.0
Long-term provisions	**6.2**	6.2
Deferred income taxes, net	**61.7**	68.2
Total equity	**484.7**	479.7
	$ 711.7	$ 697.1
Ratio of current assets to current liabilities	**2.5 : 1**	2.1 : 1
Net debt to total capitalization	**(0.4)%**	6.3%

The ratio of current assets to current liabilities at the end of 2016 was 2.5:1, compared to 2.1:1 at the end of 2015, primarily as a result of higher cash and cash equivalent balances. See further discussion in "Changes in Financial Position" section.

The Company's net debt to capitalization was (0.4)% at December 31, 2016 (December 31, 2015: 6.3%) reflecting the Company's maintenance of low debt levels and strong cash position at the end of 2016.

CHANGES IN FINANCIAL POSITION

At the end of 2016, CPPI had $51.9 million of cash and cash equivalents.

(millions of Canadian dollars)	2016	2015
Cash generated from (used in)		
Operating activities	**$ 150.0**	$ 145.4
Financing activities	**(44.8)**	(124.5)
Investing activities	**(70.8)**	(80.2)
Increase (decrease) in cash and cash equivalents	**$ 34.4**	$ (59.3)

The changes in the components of these cash flows during 2016 are discussed in the following sections.

Operating Activities

For the 2016 year, CPPI generated cash from operating activities of $150.0 million, up $4.6 million from cash generated of $145.4 million in the previous year. The increase in operating cash flows was principally from favourable movements in non-cash working capital, offset in part by lower cash earnings in 2016. The improvement in non-cash working capital in 2016 related principally to the decline in accounts receivable balances and residual chip inventories.

Financing Activities

In 2016, cash used in financing activities of $44.8 million was $79.7 million lower than the $124.5 million used in the prior year. During 2016, CPPI paid dividends totaling $16.9 million, or the equivalent of $0.0625 per common share in each quarter. During 2015, CPPI paid a special dividend of $79.0 million, or $1.125 per common share, as well as quarterly dividends totaling $17.5 million, or $0.0625 per common share in each quarter. During 2016, the Company continued its share repurchase activity under its Normal Course Issuer Bid, spending a total of $24.7 million on common share repurchases during the year, compared to a total of $25.3 million on common share repurchases in

2015 (see further discussion of the shares purchased under a Normal Course Issuer Bid in the following "Liquidity and Financial Requirements" section). Finance expenses paid during 2016 were $0.5 million higher than the prior year.

Investing Activities

Net cash used for investing activities in 2016 was $70.8 million, compared to $80.2 million used in 2015. Capital expenditures of $64.0 million in 2016 were associated with several capital projects including energy, maintenance of business and improvement projects, as well as, to a lesser extent, the acquisition of mobile equipment. Cash used for investing activities also included $7.0 million in advances to Licella, which comprised the aforementioned write-down (see further discussion in the "Licella Pulp Joint Venture" section). On January 30, 2015, CPPI completed the acquisition of the Taylor pulp mill from Canfor for cash consideration of $12.6 million (see further discussion in the "Acquisition of Taylor pulp mill" section).

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loan and Term Debt

At December 31, 2016, the Company had a $110.0 million unsecured operating loan facility which was unused, except for $9.3 million reserved for several standby letters of credit, leaving $100.7 million available and undrawn on the operating facility. In 2015, the maturity date of this facility was extended to January 31, 2019. Subsequent to this extension, in 2016, the maturity date of this facility was extended to January 31, 2020. CPPI had a separate facility to cover letters of credit, which expired on June 30, 2016 and was not extended. Letters of credit covered under the expired facility were transferred to the operating loan facility.

CPPI has $50.0 million of floating interest rate term debt. In 2016, the Company extended the maturity of the term debt from November 5, 2018 to January 31, 2020.

Debt Covenants

CPPI has certain financial covenants on its debt obligations that stipulate a maximum debt to total capitalization ratio. The debt to total capitalization is calculated by dividing total debt by shareholders' equity plus total debt. In 2015, the minimum net worth financial covenant, which was based on shareholders' equity, was removed.

In circumstances when debt to total capitalization exceeds a threshold, CPPI is subject to an interest coverage ratio that requires a minimum amount of earnings before interest, taxes, depreciation and amortization relative to net interest expense. CPPI is not currently subject to this test.

Provisions contained in CPPI's long-term borrowing agreements also limit the amount of indebtedness that the Company may incur and the amount of dividends it may pay on its common shares. The amount of dividends the Company is permitted to pay under its long-term borrowing agreements is determined by reference to consolidated net earnings less certain restricted payments.

Management reviews results and forecasts to monitor the Company's compliance with these covenant requirements. CPPI was in compliance with all its debt covenants for the year ended December 31, 2016, and expects to remain so for the foreseeable future.

Normal Course Issuer Bid

On March 7, 2016, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,446,139 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2016. The renewed normal course issuer bid is set to expire on March 6, 2017. In 2016, CPPI purchased 2,252,504 common shares for $24.4 million (an average price of $10.83 per common share). Cash payments for share purchases totaled $24.7 million during the year. As a result of the share purchases in 2016, Canfor's interest in CPPI increased from 51.9% at December 31, 2015 to 53.6% at December 31, 2016.

2017 Projected Capital Spending and Debt Repayments

Based on its current outlook for 2017, assuming no deterioration in market conditions during the year, the Company anticipates that it will invest approximately $77.0 million in capital projects, which will consist primarily of various improvement projects as well as maintenance of business expenditures, including major maintenance spending.

There are no scheduled debt payments in 2017. CPPI has sufficient liquidity in its cash reserves and operating loans to finance its planned capital expenditures as required during 2017.

Derivative Financial Instruments

As at December 31, 2016, the Company had no derivative financial instruments outstanding. From time to time, CPPI:

a. Uses US-dollar derivative financial instruments to partly hedge its exposure to currency risk. The Company did not enter into any US-dollar collars during 2016.

b. Uses Western Texas Intermediate ("WTI") oil contracts as proxy to hedge its diesel purchases. The Company did not enter into any oil collars during 2016.

c. Enters into futures contracts on commodity exchanges for pulp. The Company did not enter into any pulp futures contracts during 2016.

d. Uses interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates. The Company did not enter into any interest rate swaps during 2016.

Commitments

The following table summarizes CPPI's financial contractual obligations at December 31, 2016 for each of the next five years and thereafter:

(millions of Canadian dollars)	2017	2018	2019	2020	2021	Thereafter	Total
Long-term debt obligations	$ -	$ -	$ -	$ 50.0	$ -	$ -	$ 50.0
Operating leases	0.4	0.3	0.2	0.1	-	-	1.0
	$ 0.4	$ 0.3	$ 0.2	$ 50.1	$ -	$ -	$ 51.0

Other contractual obligations not included in the table above or highlighted previously are:

- The Company has energy agreements with a BC energy company (the "Energy Agreements") for three of the Company's mills. These agreements are for the commitment of electrical load displacement and the sale of incremental power from the Company's pulp and paper mills. These Energy Agreements include incentive grants from the BC energy company for capital investments to increase electrical generation capacity, and also call for performance guarantees to ensure minimum required amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, the Company has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2016 the Company had posted $7.7 million of standby letters of credit under these agreements, and had no repayment obligations under the terms of any of these agreements.
- Contractual commitments totaling $1.6 million, principally related to the construction of capital assets.
- The Company's asset retirement obligations represent estimated undiscounted future payments of $9.3 million to remediate the landfills at the end of their useful lives. Payments relating to landfill closure costs are expected to occur at periods ranging from 6 to 35 years which have been discounted at risk free rates ranging from 1.3% to 2.3%. The estimated discounted value is $5.4 million and the amount is included in Other long-term provisions.
- Obligations to pay pension and other post-employment benefits, for which a net liability for accounting purposes at December 31, 2016 was $109.1 million. As at December 31, 2016, CPPI estimated that it would make contribution payments of $4.4 million to its defined benefit pension plans in 2017 based on the last actuarial valuation for funding purposes.
- As part of the acquisition of the Taylor pulp mill, CPPI may also pay contingent consideration to Canfor, based on the Taylor pulp mill's financial performance over a three-year period.
- Purchase obligations and contractual obligations in the normal course of business. For example, purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on the Company's requirements in any given year.

TRANSACTIONS WITH RELATED PARTIES

The Company undertakes transactions with various related entities. These transactions are in the normal course of business and are generally on similar terms as those accorded to unrelated third parties, except where noted otherwise. The current pricing under the Company's Fibre Supply Agreement with Canfor expired September 1, 2016. The Company and Canfor agreed to extend the chip pricing formula under these agreements for one year, with the opportunity to extend for one additional year if both parties agree. In 2016, the Company depended on Canfor to provide approximately 63% of its fibre supply.

The Company purchased wood chips, logs and hog fuel from Canfor sawmills in the amount of $147.8 million in 2016.

Canfor provides certain business and administrative services to the Company under a services agreement. The total amount charged for the services provided by Canfor in 2016 was $12.2 million.

The Company provides certain business and administrative services to Canfor under an incidental services agreement. The total amount charged for the services provided to Canfor in 2016 was $3.5 million.

At December 31, 2016, an outstanding balance of $10.3 million is due to Canfor.

Additional details on related party transactions are contained in Note 16 to CPPI's 2016 consolidated financial statements.

Acquisition of Taylor Pulp Mill

On January 30, 2015, CPPI completed the purchase of the Taylor pulp mill from Canfor for cash consideration of $12.6 million including working capital. The acquisition also included a long-term fibre supply agreement under which Canfor will supply the Taylor pulp mill with fibre at prices that approximate fair market value. In addition to the cash consideration paid on the acquisition date, CPPI may also pay contingent consideration to Canfor, based on the Taylor pulp mill's annual adjusted operating income before amortization over a three year period, starting January 31, 2015. On the acquisition date, the fair value of the contingent consideration was $1.8 million and was recorded as a long-term provision. CPPI recognized long-term assets acquired net of liabilities assumed at a fair value of $2.8 million and net working capital of $11.6 million. The acquisition was accounted for in accordance with IFRS 3, *Business Combinations.*

If the acquisition had occurred on January 1, 2015, CPPI's consolidated 2015 sales would have increased by approximately $8.9 million and consolidated 2015 net income would have increased by approximately $0.2 million. The Taylor pulp mill's results are included in the pulp segment.

Subsequent to the acquisition date, in 2015, CPPI reversed the $1.8 million contingent consideration provision resulting in a gain recorded to Other income (expense) to reflect lower forecast BCTMP prices over the contingent consideration period. The fair value of the contingent consideration provision was nil at December 31, 2016.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Sales and income (millions of Canadian dollars)								
Sales	**$ 257.8**	**$ 291.6**	**$ 257.2**	**$ 295.3**	$ 330.8	$ 294.1	$ 276.0	$ 273.8
Operating income before amortization[13]	**$ 42.1**	**$ 50.0**	**$ 22.1**	**$ 57.8**	$ 56.2	$ 58.7	$ 36.4	$ 57.1
Operating income	**$ 22.9**	**$ 31.0**	**$ 5.2**	**$ 39.1**	$ 38.6	$ 42.3	$ 20.9	$ 41.4
Net income	**$ 10.1**	**$ 22.4**	**$ 2.2**	**$ 23.1**	$ 29.7	$ 31.2	$ 17.7	$ 28.0
Per common share (Canadian dollars)								
Net income – basic and diluted	**$ 0.15**	**$ 0.34**	**$ 0.03**	**$ 0.34**	$ 0.43	$ 0.45	$ 0.25	$ 0.40
Book value[14]	**$ 7.27**	**$ 7.14**	**$ 6.88**	**$ 7.15**	$ 6.96	$ 6.65	$ 7.40	$ 7.17
Dividends declared	**$ 0.0625**	**$ 0.0625**	**$ 0.0625**	**$ 0.0625**	$ 0.0625	$ 0.0625	$ 1.1875	$ 0.0625
Statistics								
Pulp shipments (000 mt)	**275.4**	**319.8**	**287.2**	**319.1**	356.2	307.4	291.9	272.1
Paper shipments (000 mt)	**33.6**	**35.5**	**38.5**	**34.9**	35.4	32.1	33.8	32.1
Average exchange rate – US$/Cdn$	**$ 0.750**	**$ 0.766**	**$ 0.776**	**$ 0.728**	$ 0.749	$ 0.764	$ 0.813	$ 0.806
Average NBSK pulp list price delivered to China (US$)	**$ 595**	**$ 595**	**$ 617**	**$ 590**	$ 600	$ 638	$ 675	$ 663

[13] Amortization includes certain capitalized major maintenance costs.
[14] Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

Sales are primarily influenced by changes in market pulp prices, sales volumes and fluctuations in Canadian dollar exchange rates. Operating income, net income and operating income before amortization are primarily impacted by: sales revenue; freight costs; fluctuations of fibre, chemical and energy prices; level of spending and timing of maintenance downtime; and production curtailments. Net income is also impacted by fluctuations in Canadian dollar exchange rates, the revaluation to the period end rate of US-dollar denominated working capital balances and long-term debt, and revaluation of outstanding energy derivatives, pulp futures and US-dollar forward contracts and collars.

(millions of Canadian dollars)	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Operating income (loss) by segment:								
Pulp	**$ 18.1**	**$ 26.7**	**$ 1.8**	**$ 33.0**	$ 34.4	$ 38.2	$ 18.1	$ 36.3
Paper	**$ 8.1**	**$ 7.2**	**$ 5.5**	**$ 8.9**	$ 6.9	$ 7.1	$ 5.7	$ 7.9
Unallocated	**$ (3.3)**	**$ (2.9)**	**$ (2.1)**	**$ (2.8)**	$ (2.7)	$ (3.0)	$ (2.9)	$ (2.8)
Total operating income	**$ 22.9**	**$ 31.0**	**$ 5.2**	**$ 39.1**	$ 38.6	$ 42.3	$ 20.9	$ 41.4
Add: Amortization	**$ 19.2**	**$ 19.0**	**$ 16.9**	**$ 18.7**	$ 17.6	$ 16.4	$ 15.5	$ 15.7
Total operating income before amortization[15]	**$ 42.1**	**$ 50.0**	**$ 22.1**	**$ 57.8**	$ 56.2	$ 58.7	$ 36.4	$ 57.1
Add (deduct):								
Working capital movements	**$ 3.8**	**$ (3.9)**	**$ 31.9**	**$ (12.8)**	$ (11.8)	$ (10.5)	$ (1.1)	$ (9.5)
Defined benefit pension plan contributions	**$ (2.1)**	**$ (3.6)**	**$ (1.4)**	**$ (1.2)**	$ (1.7)	$ (0.5)	$ (1.3)	$ (0.4)
Income taxes paid, net	**$ (0.8)**	**$ (18.6)**	**$ (2.6)**	**$ (11.6)**	$ (2.0)	$ (18.3)	$ (3.2)	$ (12.5)
Other operating cash flows, net	**$ 4.1**	**$ 2.2**	**$ (1.5)**	**$ (3.9)**	$ 2.4	$ 2.8	$ (0.3)	$ 4.9
Cash from operating activities	**$ 47.1**	**$ 26.1**	**$ 48.5**	**$ 28.3**	$ 43.1	$ 32.2	$ 30.5	$ 39.6
Add (deduct):								
Dividends paid	**$ (4.2)**	**$ (4.1)**	**$ (4.3)**	**$ (4.3)**	$ (4.4)	$ (83.3)	$ (4.4)	$ (4.4)
Finance expenses paid	**$ (1.1)**	**$ (0.8)**	**$ (0.5)**	**$ (0.8)**	$ (0.7)	$ (0.9)	$ (0.6)	$ (0.5)
Capital additions, net	**$ (18.3)**	**$ (14.0)**	**$ (18.6)**	**$ (13.1)**	$ (27.6)	$ (14.5)	$ (12.8)	$ (13.4)
Advances to Licella	**$ (3.5)**	**$ -**	**$ (3.5)**	**$ -**	$ -	$ -	$ -	$ -
Acquisition of Taylor pulp mill	**$ -**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -	$ (12.6)
Share purchases	**$ -**	**$ (0.3)**	**$ (19.4)**	**$ (5.0)**	$ (9.6)	$ (6.7)	$ (7.3)	$ (1.7)
Other, net	**$ -**	**$ -**	**$ -**	**$ 0.2**	$ 0.1	$ 0.1	$ 0.3	$ 0.2
Change in cash / operating loans	**$ 20.0**	**$ 6.9**	**$ 2.2**	**$ 5.3**	$ 0.9	$ (73.1)	$ 5.7	$ 7.2

[15] Amortization includes certain capitalized major maintenance costs.

THREE-YEAR COMPARATIVE REVIEW

(millions of Canadian dollars, except per share amounts)	**2016**	2015	2014
Sales	**$ 1,101.9**	$ 1,174.7	$ 980.5
Net income	**$ 57.8**	$ 106.6	$ 89.5
Total assets	**$ 837.1**	$ 841.3	$ 827.4
Term debt	**$ 50.0**	$ 50.0	$ 50.0
Net income per share, basic and diluted	**$ 0.86**	$ 1.52	$ 1.26
Dividends declared per share	**$ 0.250**	$ 1.375	$ 0.250

FOURTH QUARTER RESULTS

Overview

The Company recorded operating income of $22.9 million and net income of $10.1 million for the fourth quarter of 2016, compared to operating income of $31.0 million and net income of $22.4 million for the third quarter of 2016 and operating income of $38.6 million and net income of $29.7 million for the fourth quarter of 2015. Net income per share was $0.15 for the fourth quarter of 2016, compared to $0.34 per share in the third quarter of 2016 and $0.43 per share in the fourth quarter of 2015.

An overview of the results by business segment for the fourth quarter of 2016 compared to the third quarter of 2016 and the fourth quarter of 2015 follows.

Pulp

Selected Financial Information and Statistics – Pulp

Summarized results for the Pulp segment for the fourth quarter of 2016, third quarter of 2016 and fourth quarter of 2015 were as follows:

(millions of Canadian dollars, unless otherwise noted)	Q4 2016	Q3 2016	Q4 2015
Sales	**$ 215.9**	$ 247.9	$ 286.9
Operating income before amortization[16]	**$ 36.2**	$ 44.8	$ 50.9
Operating income	**$ 18.1**	$ 26.7	$ 34.4
Average NBSK pulp price delivered to China – US$[17]	**$ 595**	$ 595	$ 600
Average NBSK pulp price delivered to China – Cdn$[17]	**$ 794**	$ 777	$ 801
Production – pulp (000 mt)	**304.0**	312.5	322.5
Shipments – pulp (000 mt)	**275.4**	319.8	356.2

[16] Amortization includes certain capitalized major maintenance costs.

[17] Per tonne, NBSK pulp list price delivered to China (as published by Resource Information Systems, Inc.); Average NBSK pulp price delivered to China in Cdn$ calculated as average NBSK pulp price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada average noon rate for the period.

Overview

Operating income for the pulp segment was $18.1 million for the fourth quarter of 2016, down $8.6 million from the third quarter of 2016 and down $16.3 million from the fourth quarter of 2015.

Pulp segment results were down compared to the previous quarter reflecting the disruption to operations and logistics caused by challenging weather conditions in British Columbia, which impacted productivity and pulp unit manufacturing costs, as well as shipments around year end. These impacts were partially offset by the improvement in average BCTMP unit sales realizations in the current quarter, reflecting higher market prices combined with the benefit of a 2% weaker Canadian dollar. NBSK pulp unit sales realizations were broadly in line with the previous quarter, as a slightly weaker Canadian dollar was offset by increased pricing pressure from customers.

Compared to the fourth quarter of 2015, the impact of inclement weather conditions in British Columbia on pulp production and shipment volumes, as well as a modest decrease in NBSK pulp US-dollar prices, which more than offset an increase in BCTMP prices, were the primary factors accounting for the lower quarter-over-quarter operating income. Pulp unit manufacturing costs were relatively in line with the fourth quarter of 2015, with the weather-related disruptions to operating performance and resulting higher unit conversion costs offset by lower fibre costs in the current quarter.

Markets

Global softwood pulp markets were relatively stable through most of the fourth quarter of 2016 with average NBSK pulp list prices to China, North America and Europe in line with the third quarter of 2016. Global softwood pulp producer inventory levels saw a slight increase through the quarter and finished at 32 days of supply at the end of December 2016, up 2 days from the end of September 2016[18]. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

[18] World 20 data is based on twenty producing countries representing 80% of the world chemical market pulp capacity and is based on information compiled and prepared by the PPPC.

Global shipments of bleached softwood kraft pulp decreased slightly in October before rebounding in November and December, primarily driven by increased shipments to Asia[19].

Sales

The Company's pulp shipments in the fourth quarter of 2016 totalled 275,400 tonnes, down 44,400 tonnes, or 14%, from the third quarter of 2016 and down 80,800 tonnes, or 23%, from the fourth quarter of 2015. Lower pulp shipments in the current quarter reflected both the slippage of a vessel shipment to Asia into early January 2017, combined with lower NBSK pulp production. BCTMP shipments made up approximately 19% of the current quarter's total pulp shipments, representing a 3% increase from the previous quarter. Compared to the fourth quarter of 2015, the decrease in pulp shipments was mostly attributable to a significant drawdown of inventories in late 2015, as well as the lower NBSK pulp production and delayed shipment in the current quarter.

The average China US-dollar NBSK pulp list price, as published by RISI, was unchanged from the third quarter of 2016 and average NBSK pulp unit sales realizations were broadly in line with the previous quarter reflecting the benefit of a 2% weaker Canadian dollar offset by increased pricing pressure from customers. Average BCTMP unit sales realizations showed a healthy increase when compared to the previous quarter, reflecting improved BCTMP markets combined with the benefit of a 2% weaker Canadian dollar.

Compared to the fourth quarter of 2015, the average China US-dollar NBSK pulp list price was down $5 per tonne, or 1%. The Company's NBSK pulp unit sales realizations saw a modest decrease when compared to the fourth quarter of 2015 primarily reflecting lower US-dollar prices. BCTMP unit sales realizations increased significantly when compared to the fourth quarter of 2015, primarily reflecting the improvement in BCTMP markets compared to the end of 2015.

Energy revenues moderately increased during the fourth quarter of 2016 compared to the previous quarter, primarily reflecting increased power generation and seasonally higher energy prices. Compared to the fourth quarter of 2015, energy revenue was down primarily due to decreased power generation as a result of the weather-related operational challenges in the current quarter.

Operations

Pulp production in the fourth quarter at 304,000 tonnes was down 8,500 tonnes, or 3%, from the third quarter of 2016, and down 18,500 tonnes, or 6%, compared to the fourth quarter of 2015. Production in the current quarter reflected a lower operating rate, primarily due to the cold weather challenges, which more than offset the quarter-over quarter impact of the scheduled maintenance outages in both comparative quarters. In the third quarter of 2016, the Company completed the scheduled maintenance outages at the Prince George NBSK pulp mill and the Taylor BCTMP mill, which reduced pulp production by 3,700 tonnes of NBSK pulp and 3,100 tonnes of BCTMP, respectively. In the comparative fourth quarter of 2015, the Company completed a scheduled maintenance outage at the Northwood pulp mill which reduced NBSK pulp production by approximately 20,000 tonnes.

Pulp unit manufacturing costs saw a slight increase from the previous quarter, reflecting higher energy usage combined with seasonally higher energy costs, as well as the unfavourable impact of the lower production volumes during the current quarter. Fibre costs were relatively flat compared to the third quarter of 2016 reflecting slightly lower market prices for delivered sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations), offset by a marginal increase in the proportion of higher-cost whole log chips in the current quarter.

Pulp unit manufacturing costs were broadly in line with the fourth quarter of 2015 as lower productivity combined with higher energy usage and higher energy costs, was offset by slightly lower fibre costs in the current quarter reflecting lower market prices for delivered sawmill residual chips as well as a decrease in the proportion of higher-cost whole log chips.

[19] As reported by Pulp and Paper Products Council ("PPPC") statistics.

Paper

Selected Financial Information and Statistics – Paper

Summarized results for the Paper segment for the fourth quarter of 2016, third quarter of 2016 and fourth quarter of 2015 were as follows:

(millions of Canadian dollars, unless otherwise noted)	Q4 2016	Q3 2016	Q4 2015
Sales	**$ 41.8**	$ 43.6	$ 43.6
Operating income before amortization[20]	**$ 9.1**	$ 8.1	$ 7.9
Operating income	**$ 8.1**	$ 7.2	$ 6.9
Production – paper (000 mt)	**36.0**	32.4	35.8
Shipments – paper (000 mt)	**33.6**	35.5	35.4

[20] Amortization includes certain capitalized major maintenance costs.

Overview

Operating income for the paper segment at $8.1 million for the fourth quarter of 2016 was up $0.9 million from the third quarter of 2016 and up $1.2 million from the fourth quarter in the prior year.

The increase in operating income compared to the third quarter of 2016 primarily reflected the impact of the 2% weaker Canadian dollar, combined with lower paper unit manufacturing costs related to higher production during the current quarter, given the absence of any scheduled maintenance downtime. Compared to the fourth quarter of 2015, paper unit sales realizations remained unchanged, while unit manufacturing costs were modestly lower reflecting lower slush pulp costs and lower maintenance and operating supply costs.

Markets

Global kraft paper markets were stable through the fourth quarter of 2016. Previously announced price increases in Europe were met with resistance which resulted in very little price movement.

Sales

The Company's paper shipments in the fourth quarter of 2016 were 33,600 tonnes, down 1,900 tonnes, or 5%, from the previous quarter and down 1,800 tonnes, or 5% from the fourth quarter of 2015, principally reflecting lower volumes sold to Asia and Europe. Prime bleached shipments, which attract higher prices, were in line with both the third quarter of 2016 and the fourth quarter of 2015.

Paper unit sales realizations in the fourth quarter of 2016 were up slightly compared to the previous quarter, reflecting the 2% weaker Canadian dollar, which more than offset a small decline in market prices, and in line with paper unit sales realizations when compared to the fourth quarter of 2015.

Operations

Paper production for the fourth quarter of 2016 was 36,000 tonnes, up 3,600 tonnes, or 11%, from the previous quarter, principally reflecting the previous quarter's nine-day scheduled maintenance outage which reduced paper production by approximately 3,300 tonnes. Paper production in the current quarter was broadly in line with fourth quarter of 2015.

Paper unit manufacturing costs were modestly lower than the previous quarter, for the most part reflecting the scheduled maintenance outage in the previous quarter.

Compared to the fourth quarter of 2015, paper unit manufacturing costs were also modestly lower, reflecting lower slush pulp costs due to slightly lower overall pulp sales realizations in the current quarter along with the timing of spend on maintenance and operating supplies in the current quarter.

Unallocated Items

(millions of Canadian dollars)		Q4 2016		Q3 2016		Q4 2015
Corporate costs	**$**	**(3.3)**	$	(2.9)	$	(2.7)
Finance expense, net	**$**	**(1.9)**	$	(1.6)	$	(1.7)
Gain (loss) on derivative financial instruments	**$**	**-**	$	-	$	0.9
Other income (expense), net	**$**	**(5.1)**	$	0.8	$	1.9

Corporate costs were $3.3 million for the fourth quarter of 2016, up from both comparable periods primarily reflecting increases in corporate, head office and general and administrative expenses in the fourth quarter of 2016.

Net finance expense for the fourth quarter of 2016 at $1.9 million, was $0.3 million higher from the previous quarter and $0.2 million higher from the fourth quarter of 2015 and relates primarily to one-time credit facility fees to extend the maturity of the operating loan (see further discussion in the "Liquidity and Financial Requirements" section).

From time to time, the Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, interest rates and pulp prices. In the fourth and third quarters of 2016, the Company had no derivative financial instruments outstanding.

Net other expense for the fourth quarter of 2016 of $5.1 million includes the write-down of research and development related advances to Licella (see further discussion in the "Licella Pulp Joint Venture" section), in part offset by favourable exchange movements on US-dollar denominated working capital balances. This is compared to net other income of $0.8 million in the previous quarter and $1.9 million in the fourth quarter of 2015, principally relating to favourable exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income (Loss)

In the fourth quarter of 2016, the Company recorded an after-tax gain of $2.5 million related to changes in the valuation of the Company's employee future benefit plans. The gain reflected a 0.5% increase in the discount rate used to value the employee future benefit plans. During the fourth quarter of 2016, the Company purchased $33.7 million of annuities through its defined benefit plans in order to mitigate its exposure to the future volatility fluctuations in the related pension obligations. At purchase of these annuities, transaction costs of $3.6 million were recognized in Other Comprehensive Income principally reflecting the difference in the annuity rate (which is comparable to solvency rates) as compared to the discount rate used to value the pension obligations on a going concern basis. The Company recorded an after-tax loss of $1.1 million in the previous quarter and an after-tax gain of $0.5 million in the fourth quarter of 2015. For more information, see the "Employee Future Benefits" part of the "Critical Accounting Estimates" section later in this report.

Summary of Financial Position

The following table summarizes CPPI's cash flow for the following periods:

(millions of Canadian dollars)		Q4 2016		Q3 2016		Q4 2015
Increase (decrease) in cash and cash equivalents	**$**	**20.0**	$	6.9	$	0.9
Operating activities	**$**	**47.1**	$	26.1	$	43.1
Financing activities	**$**	**(5.3)**	$	(5.2)	$	(14.7)
Investing activities	**$**	**(21.8)**	$	(14.0)	$	(27.5)

Cash generated from operating activities was $47.1 million in the fourth quarter of 2016, up $21.0 million from the previous quarter and $4.0 million from the fourth quarter of 2015. The increase in operating cash flows compared to the previous quarter principally reflected lower tax installment payments, combined with favourable movements in non-cash working capital, which more than offset the lower cash earnings. The improvement in non-cash working capital related to the decline in accounts receivable balances and chip inventories in the current quarter.

Cash used for financing activities was $5.3 million in the fourth quarter of 2016, which was in line with the previous quarter and down $9.4 million from the fourth quarter of 2015. Cash used for financing activities in the current quarter included the Company's quarterly dividend resulting in a payment $4.2 million ($0.0625 per share) as well as interest paid of $1.1 million, which was an increase compared to both comparative periods. In the third and fourth quarters of 2016, the Company did not repurchase common shares under its Normal Course Issuer Bid, however, in the third quarter of 2016, $0.3 million was paid for common shares that were repurchased at the end of the immediately preceding quarter (see further discussion of the shares purchased under the normal course issuer bid in the "Liquidity and Financial Requirements" section). In the fourth quarter of 2015, CPPI purchased 692,985 common shares under its Normal Course Issuer Bid for $9.7 million, of which $9.6 million was paid in that comparative quarter.

Cash used for investing activities of $21.8 million in the current quarter primarily related to capital expenditures associated with several capital projects including energy, maintenance of business and improvement projects, as well as, to a lesser extent, the acquisition of mobile equipment. Cash used for investing activities also included a $3.5 million advance to Licella, which formed part of the aforementioned write-down (see further discussion in the "Licella Pulp Joint Venture" section).

SPECIFIC ITEMS AFFECTING COMPARABILITY

Specific Items Affecting Comparability of Net Income

Factors that impact the comparability of the quarters are noted below:

After-tax impact (millions of Canadian dollars, except for per share amounts)	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Net income, as reported	**$ 10.1**	**$ 22.4**	**$ 2.2**	**$ 23.1**	$ 29.7	$ 31.2	$ 17.7	$ 28.0
(Gain) loss on derivative financial instruments	$ -	$ -	$ -	$ -	$ (0.7)	$ 3.6	$ (3.4)	$ 7.0
Mark-to market gain on Taylor pulp mill contingent consideration[21]	$ -	$ -	$ -	$ -	$ -	$ -	$ (1.3)	$ -
Net impact of above items	$ -	$ -	$ -	$ -	$ (0.7)	$ 3.6	$ (4.7)	$ 7.0
Adjusted net income	**$ 10.1**	**$ 22.4**	**$ 2.2**	**$ 23.1**	$ 29.0	$ 34.8	$ 13.0	$ 35.0
Net income per share (EPS), as reported	**$ 0.15**	**$ 0.34**	**$ 0.03**	**$ 0.34**	$ 0.43	$ 0.45	$ 0.25	$ 0.40
Net impact of above items per share[22]	$ -	$ -	$ -	$ -	$ (0.01)	$ 0.05	$ (0.07)	$ 0.10
Adjusted net income per share[22]	**$ 0.15**	**$ 0.34**	**$ 0.03**	**$ 0.34**	$ 0.42	$ 0.50	$ 0.18	$ 0.50

[21] As part of the purchase of the Taylor pulp mill on January 30, 2015, CPPI may pay contingent consideration based on the Taylor pulp mill's future earnings over a three year period. On the acquisition date, the contingent consideration was valued at $1.8 million. During 2015, the contingent consideration liability was revalued to nil, resulting in a gain of $1.8 million (before tax) recorded to Other Income (see further discussion in the "Acquisition of Taylor pulp mill" section).

[22] The year-to-date net impact of the adjusting items per share and adjusted net income per share does not equal the sum of the quarterly per share amounts due to rounding.

OUTLOOK

Pulp Markets

For the month of January 2017, the Company announced an increase of US$20 per tonne for NBSK pulp list price to China, equating to US$630 per tonne, and an increase of US$10 per tonne for BCTMP. For the month of February 2017, the Company announced a further US$20 per tonne increase to both its NBSK pulp and BCTMP list prices to China. Global softwood markets are currently seeing positive pricing momentum, for both NBSK pulp and BCTMP, and this is anticipated to continue into the second quarter of 2017, when many pulp producers have their major maintenance shutdowns.

The Company has no maintenance outages planned for the first quarter of 2017. Maintenance outages are currently planned at the Northwood pulp mill in the second quarter of 2017 with a projected 25,000 tonnes of reduced production and at the Intercontinental pulp mill in the third quarter of 2017 with a projected 8,000 tonnes of reduced production. A maintenance outage at the Taylor pulp mill is scheduled for the second quarter of 2017 with a projected 3,000 tonnes of reduced production.

Paper Markets

Kraft paper markets are projected to remain stable through the first quarter of 2017 and into the second quarter of 2017, with steady demand in the North American market continuing to lead the way globally.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. Management regularly reviews these estimates and assumptions based on currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect CPPI's financial position. Unless otherwise indicated the critical accounting estimates discussed affect all of the Company's reportable segments.

Employee Future Benefits

CPPI has various defined benefit and defined contribution plans providing both pension and other non-pension post-retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. CPPI also provides certain health care benefits and pension bridging benefits to eligible retired employees. The costs and related obligations of the pension and other non-pension post-retirement benefit plans are accrued in accordance with the requirements of IFRS.

CPPI uses independent actuarial firms to perform actuarial valuations of the fair value of pension and other non-pension post-retirement benefit plan obligations. The application of IFRS requires judgments regarding certain assumptions that affect the accrued benefit provisions and related expenses, including the discount rate used to calculate the present value of the obligations, the rate of compensation increase, mortality assumptions and the assumed health care cost trend rates. Management evaluates these assumptions annually based on experience and the recommendations of its actuarial firms. Changes in these assumptions result in actuarial gains or losses, which are recognized in full in each period with an adjustment through Other Comprehensive Income (Loss).

The actuarial assumptions used in measuring CPPI's benefit plan provisions and benefit costs are as follows:

	December 31, 2016		December 31, 2015	
	Defined Benefit Pension Plans	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Discount rate	**3.9%**	**3.9%**	4.1%	4.1%
Rate of compensation increases	**3.0%**	**n/a**	3.0%	n/a
Initial medical cost trend rate	**n/a**	**7.0%**	n/a	7.0%
Ultimate medical cost trend rate	**n/a**	**4.5%**	n/a	4.5%
Year ultimate rate is reached	**n/a**	**2022**	n/a	2021

In addition to the significant assumptions listed in the table above, the average life expectancy of a 65 year old at December 31, 2016 is between 20.9 years and 24.1 years (2015 - 20.9 years and 24.0 years). As at December 31, 2016, the weighted average duration of the defined benefit plan obligation, which reflects the average age of the plan members, is 12.1 years (2015 - 12.0 years). The weighted average duration of the other benefit plans is 14.6 years (2015 - 14.3 years).

Assumed discount rates and medical cost trend rates have a significant effect on the accrued retirement benefit obligation and related plan assets. A one percentage point change in these assumptions would have the following effects on the accrued retirement benefit obligation, before taking into account the impact of hedging, and related plan annuity assets for 2016:

(millions of Canadian dollars)	1% Increase	1% Decrease
Defined benefit pension plan liabilities		
Discount rate	$ (16.6)	$ 20.4
Defined benefit pension plan annuity assets		
Discount rate	$ (3.6)	$ 4.3
Other benefit plan liabilities		
Discount rate	$ (12.0)	$ 15.3
Initial medical cost trend rate	$ 11.4	$ (9.5)

See "Liquidity and Financial Requirements" section for further discussion regarding the funding position of CPPI's pension plans.

Asset Retirement Obligations

CPPI records the estimated fair value of liabilities for asset retirement obligations, such as landfill closures, in the period in which they are incurred. For landfill closure costs, the fair value is determined using estimated closure costs discounted over the estimated useful life. Payments relating to landfill closure costs are expected to occur at periods ranging from 6 to 35 years and have been discounted at risk-free rates ranging from 1.3% to 2.3%. The actual closure costs and periods of payment may differ from the estimates used in determining the year end liability. On initial recognition, the fair value of the liability is added to the carrying amount of the associated asset and amortized over its useful life. The liability is accreted over time through charges to earnings and reduced by actual costs of settlement.

Asset Impairments

CPPI reviews the carrying values of its long-lived assets, including property, plant and equipment on a regular basis as events or changes in circumstances may warrant. An impairment loss is recognized in net income at the amount that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. No impairments were recorded in 2016 or 2015.

Deferred Taxes

In accordance with IFRS, CPPI recognizes deferred income tax assets when it is probable that the deferred income tax assets will be realized. This assumption is based on management's best estimate of future circumstances and events. If these estimates and assumptions are changed in the future, the value of the deferred income tax assets could be reduced or increased, resulting in an income tax expense or recovery. CPPI reevaluates its deferred income tax assets on a regular basis.

Valuation of Finished Product Inventories

Finished product inventories are recorded at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. CPPI estimates the net realizable value of the finished goods inventories based on actual and forecasted sales orders. Based on these estimates, there were no write-downs of the Company's finished goods inventories from cost to net realizable at December 31, 2016.

FUTURE CHANGES IN ACCOUNTING POLICIES

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, *Revenue from Contracts with Customers*, which will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company has performed a preliminary assessment of the impact of the new standard, and currently anticipates no significant impact on its financial statements.

In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company does not anticipate the new standard to have a significant impact on its financial statements.

In January 2016, the IASB issued IFRS 16, *Leases*, which will supersede IAS 17, *Leases* and related interpretations. The required adoption date for IFRS 16 is January 1, 2019 and the Company is in the process of assessing the impact on the financial statements of this new standard.

RISKS AND UNCERTAINTIES

Risks and uncertainties fall into the general business areas of markets, international commodity prices, competition, currency exchange rates, environmental issues, raw materials, capital requirements, dependence on certain relationships, government regulations, public policy and labour disputes, and Native land claims. The future impact of the various uncertainties and potential risks described in the following paragraphs (together with the risks and uncertainties identified under each of the Company's business segments) cannot be quantified or predicted with certainty. However, CPPI does not foresee unmanageable adverse effects on its business operations from, and believes that it is well positioned to deal with, such matters as may arise. The risks and uncertainties are set out in alphabetical order.

Aboriginal Issues

CPPI sources the majority of its fibre from areas subject to claims of Aboriginal rights or title. Canadian judicial decisions have recognized the continued existence of Aboriginal rights and title to lands continuously and exclusively used or occupied by Aboriginal groups; however, until recently, the courts have not identified any specific lands where Aboriginal title exists. In June 2014, the Supreme Court of Canada, for the first time, recognized Aboriginal title for the Tsilhqot'in Nation over approximately 1,750 square kilometres of land in central BC ("William decision"). It found that provisions of BC's *Forest Act*, dealing with the disposition or harvest of Crown timber, no longer applied to timber located on these lands, but also confirmed provincial law can apply on Aboriginal title lands.

While Aboriginal title had previously been assumed over specific, intensively occupied areas such as villages, the William decision marks the first time Canada's highest court has recognized Aboriginal title over a specific piece of land and, in so doing, affirmed a broader territorial use-based approach to Aboriginal title. The decision also defines what Aboriginal title means and the types of land uses consistent with this form of collective ownership.

The impacts of the Supreme Court of Canada's decision on the timber supply from Crown lands is unknown at this time; and the Company does not know if the decision will lead to changes in BC laws or policies. CPPI supports the work of tenure holders to engage, cooperate and exchange information and views with First Nations and Government to foster good relationships and minimize risks to the Company's operational plans.

Capital Requirements

The pulp and paper industries are capital intensive, and the Company regularly incurs capital expenditures to expand its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws. The Company's total capital expenditures during 2016 were approximately $64.0 million. The Company anticipates available cash resources and cash generated from operations will be sufficient to fund its operating needs and capital expenditures.

Competitive Markets

The Company's products are sold primarily in Asia, North America, Japan and Europe. The markets for the Company's products are highly competitive on a global basis, with a number of major companies competing in each market with no company holding a dominant position. Competitive factors include quality of product, reliability of supply and customer service. The Company's competitive position is influenced by: the availability, quality, and cost of raw materials; energy and labour costs; free access to markets; currency exchange rates; plant efficiencies; and productivity in relation to its competitors.

Currency Exchange Risk

The Company's operating results are sensitive to fluctuations in the exchange rate of the Canadian dollar to the US-dollar, as prices for the Company's products are denominated in US-dollars or linked to prices quoted in US-dollars. Therefore, an increase in the value of the Canadian dollar relative to the US-dollar reduces the amount of revenue in Canadian dollar terms realized by the Company from sales made in US-dollars, which in turn, reduces the Company's operating margin and the cash flow available.

Cyclicality of Product Prices

The Company's financial performance is dependent upon the selling prices of its pulp and paper products, which have fluctuated significantly in the past. The markets for these products are highly cyclical and may be characterized by (i) periods of excess product supply due to industry capacity additions, increased production and other factors; and (ii) periods of insufficient demand due to weak general economic conditions. The economic climate of each region where the Company's products are sold has a significant impact upon the demand, and therefore, the prices for pulp and paper. Prices of pulp, in particular, have historically been unpredictable.

Dependence on Canfor

In 2016, approximately 63% of the fibre used by the Company was derived from the Fibre Supply Agreement with Canfor. The Company's financial results could be materially adversely affected if Canfor is unable to provide the current volume of wood chips as a result of mill closures, whether temporary or permanent.

Dependence on Key Customers

In 2016, the Company's top five customers accounted for approximately 34% of its pulp sales. In the event that the Company cannot maintain these customer relationships or the demand from these customers is diminished for any reason in the future, there is a risk that the Company would be forced to find alternative markets in which to sell its pulp, which in turn, could result in lower prices or increased distribution costs thereby adversely affecting its sales margins.

Dividends

CPPI paid quarterly dividends of $0.0625 per share through 2016 and may, subject to market conditions, continue to pay a comparable level of dividends through 2017. In 2015, the Company also paid a special dividend of $79.0 million ($1.1250 per share) to the shareholders of the Company as a result of strong cash generated by the business in 2014 and 2015. There is no assurance that the dividends will be maintained at this level and the market value of CPPI shares may fluctuate depending on the amount of dividends paid in the future. The board retains the discretion to change the policy at any time and reviews the policy on a quarterly basis.

Employee Future Benefits

The Company, in participation with Canfor, has several defined benefit plans, which provide pension and other non-pension post-retirement benefits to certain salaried and hourly employees. The defined benefit pension plans are based on a combination of years of service and final average salary. CPPI's other non-pension post-retirement benefit plans are non-contributory and include a range of health care and other benefits.

Cash payments required to fund the registered pension plan are determined by an actuarial valuation completed at least once every three years, with the most recent actuarial valuation completed as of December 31, 2015. Other non-pension post-retirement benefit plans are unfunded, and the Company makes payments as required to cover liabilities as they arise.

The funded surplus (deficit) of each defined benefit plan is calculated as the difference between the fair market value of plan assets and an actuarial estimate of future liabilities. Any deficit in the registered plans determined following an actuarial valuation must be funded in accordance with regulatory requirements, normally over 5 or 15 years. Some of the unregistered plans are also partially funded.

Through its pension funding requirements, the Company through Canfor, is exposed to the risk of fluctuating market values for the securities making up the plan assets, and to changes in prevailing interest rates which determine the discount rate used in calculating the estimated future liabilities. The funding requirements may also change to the extent that other assumptions used are revised, such as inflation rates or mortality assumptions.

For CPPI's defined benefit pension plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the accrued benefit obligation by an estimated $16.6 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation by an estimated $20.4 million. These changes would only impact the Company's funding requirements in years where a new actuarial funding valuation was performed and regulatory approval for a change in funding contributions was obtained.

Environmental Laws, Regulations and Compliance

The Company is subject to a wide range of general and industry-specific laws and regulations relating to the protection of the environment, including those governing air emissions, wastewater discharges, the storage, management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, landfill operation and closure obligations, and health and safety matters. These laws and regulations require the Company to comply with specific requirements as described in regulations. Regulations may also require the Company to obtain authorizations and comply with the authorization requirements of the appropriate governmental authorities which have considerable discretion over the terms and timing of said authorizations and permits.

The Company has incurred, and expects to continue to incur, capital, operating and other expenditures complying with applicable environmental laws and regulations and as a result of environmental remediation on asset retirement obligations. It is possible that the Company could incur substantial costs, such as civil or criminal fines, sanctions and enforcement actions, cleanup and closure costs, and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws and regulations. The amount and timing of environmental expenditures is difficult to predict, and, in some cases, the Company's liability may exceed forecasted amounts. The discovery of additional contamination or the imposition of additional cleanup obligations at the Company's or third-party sites may result in significant additional costs. Any material expenditure incurred could adversely impact the Company's financial condition or preclude the Company from making capital expenditures that would otherwise benefit the Company's business. Enactment of new environmental laws or regulations or changes in existing laws or regulations, or interpretation thereof, could have a significant impact on the Company.

Financial Risk Management and Earnings Sensitivities

Demand for pulp and paper products is closely related to global business conditions and tends to be cyclical in nature. Product prices can be subject to volatile change. CPPI competes in a global market and the majority of its products are sold in US-dollars. Consequently, changes in foreign currency relative to the Canadian dollar can impact CPPI's revenues and earnings.

Financial Risk Management

CPPI is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market risk.

The CPPI internal Risk Management Committee manages risk in accordance with a Board approved Risk Management Controls Policy. The policy sets out the responsibilities, reporting and counter party credit and communication requirements associated with all of the Company's risk management activities. Responsibility for overall philosophy, direction and approval is that of the Board of Directors.

(a) Credit risk:

Credit risk is the risk of financial loss to CPPI if a counterparty to a financial instrument fails to meet its contractual obligations.

Financial instruments that are subject to credit risk include cash and cash equivalents and accounts receivable. Cash and cash equivalents includes cash held through major Canadian and international financial institutions as well as temporary investments with an original maturity date of three months or less.

CPPI utilizes credit insurance to manage the risk associated with trade receivables. As at December 31, 2016, approximately 81% of the outstanding trade receivables are covered under credit insurance. In addition, CPPI requires letters of credit on certain export trade receivables and regularly discounts these letters of credit without recourse. CPPI recognizes the sale of the letters of credit on the settlement date, and accordingly reduces the related trade accounts receivable balance. CPPI's trade receivable balance at December 31, 2016 was $75.9 million. At December 31, 2016, approximately 99% of the trade accounts receivable balance was within CPPI's established credit terms.

(b) Liquidity risk:

Liquidity risk is the risk that CPPI will be unable to meet its financial obligations as they come due. The Company manages liquidity risk through regular cash flow forecasting in conjunction with an adequate committed operating loan facility.

At December 31, 2016, CPPI had no amounts drawn on its operating loans, and had accounts payable and accrued liabilities of $125.4 million, all of which are due within twelve months of the balance sheet date.

(c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates, foreign currency, commodity and energy prices.

(i) *Interest Rate risk:*

CPPI is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates.

CPPI may use interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates (See "Derivative Financial Instruments" section later in this document).

As noted earlier in this section (under "Employee Future Benefits"), CPPI is also exposed to interest rate risk in relation to the measurement of the Company's pension liabilities.

(ii) *Currency risk:*

CPPI is exposed to foreign exchange risk primarily related to the US-dollar, as CPPI products are sold globally with prices primarily denominated in US-dollars or linked to prices quoted in US-dollars with certain expenditures transacted in US-dollars. In addition, the Company holds financial assets and liabilities in US-dollars. These primarily include US-dollar bank accounts, investments and trade accounts.

A portion of the currency risk associated with US-dollar denominated sales is naturally offset by US-dollar denominated expenses. A portion of the remaining exposure is sometimes covered by foreign exchange collar contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US-dollars (See "Derivative Financial Instruments" section later in this document).

(iii) *Commodity price risk:*

CPPI's financial performance is dependent on the selling price of its products and the purchase price of raw material inputs. Consequently, CPPI is exposed to changes in commodity prices for pulp and paper, as well as changes in fibre, freight, chemical and energy prices. The markets for pulp and paper are cyclical and are influenced by a variety of factors. These factors include periods of excess supply due to industry capacity additions, periods of decreased demand due to weak global economic activity, inventory destocking by customers and fluctuations in currency exchange rates. During periods of low prices, CPPI is subject to reduced revenues and margins, which adversely impact profitability. The Company may periodically use derivative instruments to mitigate commodity price risk (See "Derivative Financial Instruments" section later in this document).

(iv) *Energy price risk:*

CPPI is exposed to energy price risk relating to purchases of natural gas and diesel oil for use in its operations.

The annual exposure is from time to time hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of eighteen months. In the case of diesel, CPPI uses WTI oil contracts to hedge its exposure (See "Derivative Financial Instruments" section later in this document).

Derivative Financial Instruments

Subject to risk management policies approved by its Board of Directors, CPPI, from time to time, uses derivative instruments, such as forward exchange contracts and option contracts to hedge future movements of exchange rates and futures and forward contracts to hedge pulp prices, commodity prices and energy costs. See section "Liquidity and Financial Requirements" for details of CPPI's derivative financial instruments outstanding at year end.

Earnings Sensitivities

Estimates of the sensitivity of CPPI's pre-tax results to currency fluctuations and prices for its principal products, based on 2017 forecast production and year end foreign exchange rates, are set out in the following table:

(millions of Canadian dollars)	Impact on annual pre-tax earnings
NBSK Pulp – US$10 change per tonne [23]	$ 14
BCTMP – US$10 change per tonne [23]	$ 3
Natural gas cost – $1 change per gigajoule	$ 4
Chip cost – $1 change per tonne	$ 2
Canadian dollar – US$0.01 change per Canadian dollar[24]	$ 5

[23] Excluding impacts of exchange rate, freight, discounting, potential change in fibre costs and other deductions.
[24] Represents impact on operating income and excludes the impact on operating loans denominated in US$. Decrease of US$0.01 per Canadian dollar results in an increase to pre-tax annual earnings and an increase of US$0.01 per Canadian dollar results in a decrease to pre-tax annual earnings.

Governmental Regulations

The Company is subject to a wide range of general and industry-specific environmental, health and safety and other laws and regulations imposed by federal, provincial and local authorities. If the Company is unable to extend or renew a material approval, license or permit required by such laws, or if there is a delay in renewing any material approval, license or permit, the Company's business, financial condition, results of operations and cash flows could be materially adversely affected. In addition, future events such as any changes in these laws and regulations or any change in their interpretation or enforcement, or the discovery of currently unknown conditions, may give rise to unexpected expenditures or liabilities.

Increased Industry Production Capacity

The Company currently faces substantial competition in the pulp industry and may face increased industry competition in the years to come if new manufacturing facilities are built or if existing mills are improved. If increases in pulp production capacity exceed increases in pulp demand, selling prices for pulp could decline and adversely affect the Company's business, financial condition, results of operations and cash flows, and the Company may not be able to compete with competitors who have greater financial resources and who are better able to weather a prolonged decline in prices.

Information Technology Security

CPPI's information technology systems serve an important role in the operation of its business. CPPI relies on various technologies to access fibre, operate its production facilities, interact with customers, vendors and employees and to report on its business. Interruption or failure of CPPI's information technology systems could result in material and adverse impacts on the Company's financial condition, operations, production, sales, and reputation and could also result in environmental and physical damage to Company operations or surrounding areas.

CPPI's information technology systems and networks could be interrupted or fail due to a variety of causes, such as natural disaster, fire, power outages, vandalism, or cyber-based attacks. Any such interruption or failure could result in operational disruptions or the misappropriation of sensitive or proprietary data that could subject CPPI to civil and criminal penalties, litigation or have a negative impact on the Company's reputation. There can be no assurance that such disruptions or misappropriations and the resulting repercussions will not negatively impact the Company's cash flows and have a material adverse effect on its business, operations, financial condition and operational results.

Although to date CPPI has not experienced any material losses relating to cyber risks, there can be no assurance that the Company will not incur such losses in the future. CPPI's risk and exposure cannot be fully mitigated due to the nature of these threats. The Company continues the development and enhancement of internal controls, policies and procedures designed to protect systems, servers, computers, software, data and networks from attack, damage or unauthorized access remain a priority. CPPI has established a Management Cyber Risk Committee to assess and monitor risk mitigation efforts and to respond to emerging threats. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Maintenance Obligations and Facility Disruptions

The Company's manufacturing processes are vulnerable to operational problems that can impair its ability to manufacture its products. The Company could experience a breakdown in any of its machines, or other important equipment, and from time to time, the Company schedules planned and incurs unplanned outages to conduct maintenance that cannot be performed safely or efficiently during operations. Such disruptions could cause significant loss of production, which could have a material adverse effect on the Company's business, financial condition and operating results.

Raw Material Costs

The principal raw material utilized by the Company in its manufacturing operations is wood chips. The Company's evergreen Fibre Supply Agreement with Canfor contains a pricing formula that currently results in the Company paying market price for wood chips and contains provisions to adjust the pricing to reflect market conditions. The current pricing under the agreement expired September 1, 2016, and may be amended as necessary to ensure it is reflective of market conditions. The Company and CFP agreed to extend the chip pricing formula under these agreements for one year, with the opportunity to extend for one additional year if both parties agree. Prices for wood chips are not within the Company's control and are driven by market demand, product availability, environmental restrictions, logging regulations, the imposition of fees or other restrictions on exports of lumber into the US and other matters. In a period of sawmill rationalization or reduced sawmill wood chip supply, increased reliance on higher-cost whole log chips may be required. The Company is not always able to increase the selling prices of its products in response to increases in raw material costs. Residual chip pricing depends on current sawmills running at current levels. In order to meet the raw materials requirements of its mills, the Company may be forced to further supplement with increased purchases of higher-cost whole log chips.

Transportation Services

The Company relies on third parties for transportation of its products, as well as delivery of raw materials principally by railroad, trucks and ships. If any significant third party transportation providers were to fail to deliver the raw materials or products or distribute them in a timely manner, the Company may be unable to sell those products at full value, or at all, or be unable to manufacture its products in response to customer demand, which may have a material adverse effect on its financial condition and operating results. In addition, if any of these significant third parties were to cease operations or cease doing business with the Company, the Company may be unable to replace them at a reasonable cost. Transportation services may also be impacted by seasonal factors, which could impact the timely delivery of raw materials and distribution of products to customers and have a resulting material adverse impact on CPPI's financial condition and operating results. As a result of increased government regulation on truck driver work hours and rail capacity constraints, access to adequate transportation capacity has at times been strained and could affect the Company's ability to move its wood chips, pulp and paper at market competitive prices.

Work Stoppages

Any labour disruptions and any costs associated with labour disruptions at the Company's mills could have a material adverse effect on the Company's production levels and results of operations. The Company's collective agreements with UNIFOR and PPWC at its Prince George operations expire on April 30, 2017. Any inability to negotiate acceptable contracts with the unions as they expire could result in a strike or work stoppage by the affected workers, and increased operating costs as a result of higher wages or benefits paid to unionized workers. CPPI has received Notice to Bargain from the UNIFOR and the PPWC. Bargaining will commence on May 1, 2017.

OUTSTANDING SHARE DATA

At December 31, 2016 and February 8, 2017, there were 66,699,368 common shares issued and outstanding.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Company's chief executive officer ("CEO") and chief financial officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2016, and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR"), and confirm that there were no changes in these controls that occurred during the year ended December 31, 2016 which materially affected, or are reasonably likely to materially affect, the Company's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2016, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2016 Annual Information Form, is available at www.sedar.com or at www.canfor.com.