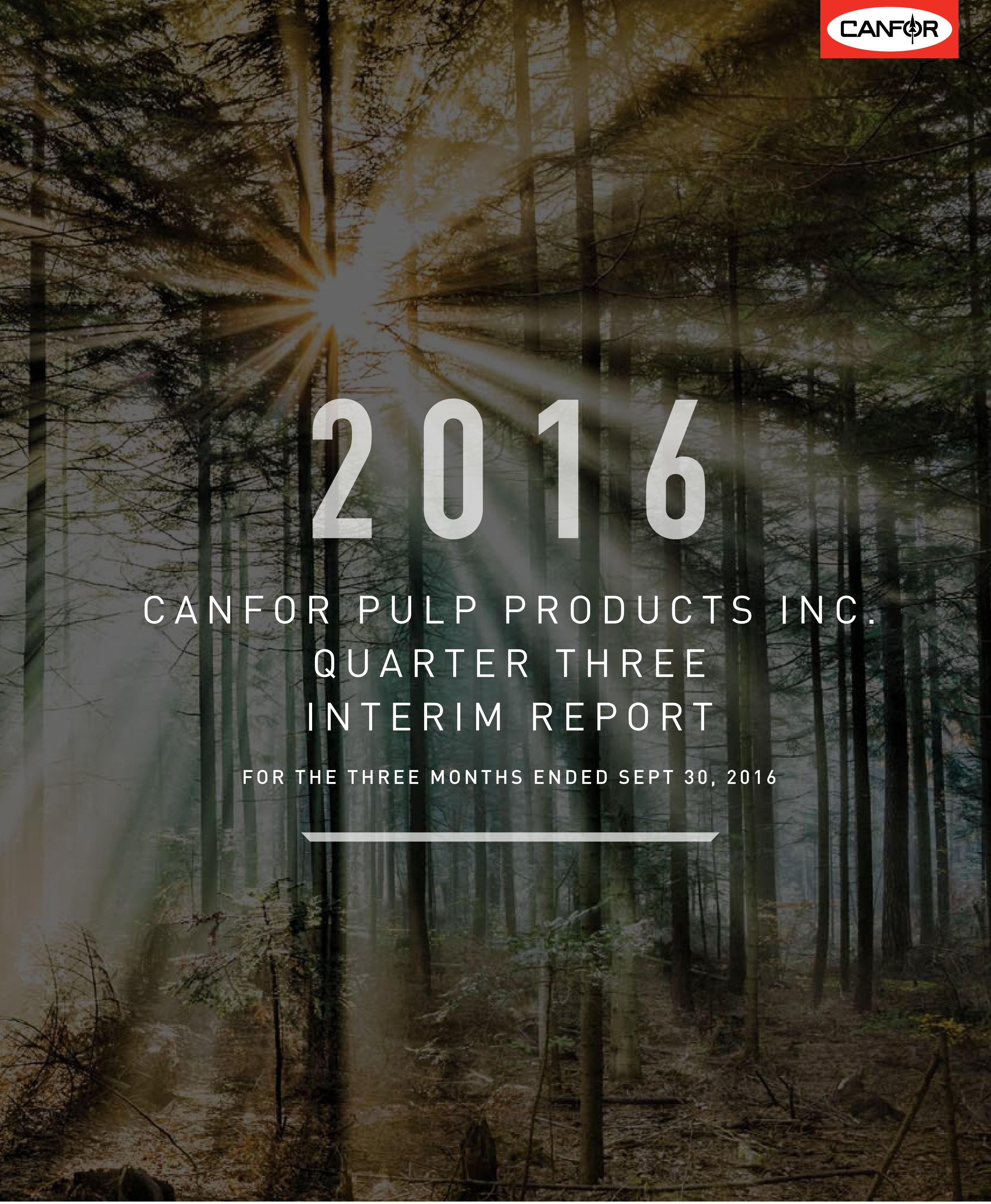

CANFOR

2016

CANFOR PULP PRODUCTS INC.
QUARTER THREE INTERIM REPORT

FOR THE THREE MONTHS ENDED SEPT 30, 2016

To Our Shareholders

Canfor Pulp Products Inc. ("CPPI") reported net income of $22.4 million, or $0.34 per share, for the third quarter of 2016, compared to $2.2 million, or $0.03 per share, for the second quarter of 2016 and $31.2 million, or $0.45 per share, for the third quarter of 2015. For the nine months ended September 30, 2016, the Company's net income was $47.7 million, or $0.70 per share, compared to $76.9 million, or $1.09 per share, for the nine months ended September 30, 2015.

The following table summarizes selected financial information for the Company for the comparative periods:

(millions of Canadian dollars, except per share amounts)	**Q3 2016**	Q2 2016	**YTD 2016**	Q3 2015	YTD 2015
Sales	**$ 291.6**	$ 257.2	**$ 844.1**	$ 294.1	$ 843.9
Operating income before amortization	**$ 50.0**	$ 22.1	**$ 129.9**	$ 58.7	$ 152.2
Operating income	**$ 31.0**	$ 5.2	**$ 75.3**	$ 42.3	$ 104.6
Net income	**$ 22.4**	$ 2.2	**$ 47.7**	$ 31.2	$ 76.9
Net income per share, basic and diluted	**$ 0.34**	$ 0.03	**$ 0.70**	$ 0.45	$ 1.09
Adjusted net income	**$ 22.4**	$ 2.2	**$ 47.7**	$ 34.8	$ 82.8
Adjusted net income per share, basic and diluted	**$ 0.34**	$ 0.03	**$ 0.70**	$ 0.50	$ 1.17

The Company had no items affecting comparability in the third quarter of 2016 or for the nine months ended September 30, 2016. Adjusted net income was $34.8 million, or $0.50 per share, for the third quarter of 2015 and $82.8 million, or $1.17 per share, for the nine months ended September 30, 2015.

The Company reported operating income of $31.0 million for the third quarter of 2016, up $25.8 million from $5.2 million reported for the second quarter of 2016. The improvement in the Company's operating results primarily reflected significantly less scheduled maintenance downtime at the Company's Northern Bleached Softwood Kraft ("NBSK") pulp mills in the current quarter. Also contributing to the third quarter results were higher pulp shipment volumes, increased energy revenues as well as an improvement in pulp and paper unit sales realizations.

Global softwood pulp markets were relatively stable through the third quarter of 2016 with the average North American US-dollar NBSK pulp list price, as published by RISI, up US$18 per tonne, or 2%, to US$998 per tonne, while the average list price to China was down US$22 per tonne, or 4%, to US$595 per tonne. NBSK pulp unit sales realizations were up slightly compared to the second quarter of 2016 as the benefit of the 1 cent, or 1%, weaker Canadian dollar more than offset modestly lower NBSK pulp prices in China during the quarter. Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") markets improved in the third quarter of 2016, positively impacting BCTMP unit sales realizations at the Company's Taylor pulp mill. Energy revenues were well up in the current quarter reflecting a return to more normalized power generation levels as well as higher energy prices.

Pulp shipment and production volumes were up 11% and 12%, respectively, from the previous quarter primarily reflecting the quarter-over-quarter impact of scheduled maintenance downtime. In the current quarter, the Company completed scheduled maintenance outages at the Prince George pulp mill and at the Taylor BCTMP mill which reduced pulp production by approximately 3,700 tonnes and 3,100 tonnes, respectively, while in the second quarter of 2016 scheduled maintenance outages and, to a lesser extent, isolated operational disruptions reduced NBSK pulp production by approximately 40,000 tonnes. NBSK unit manufacturing costs were substantially lower in the current quarter principally as a result of lower maintenance costs.

Operating income in the Company's paper segment at $7.2 million was up $1.7 million from the second quarter of 2016, largely reflecting improved paper unit sales realizations as a result of a higher-value sales mix and, to a lesser extent, the favourable impact of the weaker Canadian dollar in the third quarter of 2016. The Company completed a nine- day scheduled maintenance outage at the paper operations in the current quarter reducing paper production by approximately 3,300 tonnes, but this was offset by improved productivity. In the previous quarter, a five-day scheduled maintenance outage that reduced paper production by approximately 1,800 tonnes was completed.

Looking ahead, with new pulp capacity forecast to come on line there is risk of downward pressure on pricing. For the month of October 2016, the Company's announced NBSK pulp list price is US$1,000 per tonne in North America.

On October 26, 2016, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on November 15, 2016 to the shareholders of record on November 8, 2016.

Michael J. Korenberg
Chairman

Don B. Kayne
Chief Executive Officer

Canfor Pulp Products Inc.
Third Quarter 2016
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the quarter ended September 30, 2016 relative to the quarters ended June 30, 2016 and September 30, 2015, and the financial position of the Company at September 30, 2016. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended September 30, 2016 and 2015, as well as the 2015 annual MD&A and the 2015 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2015 (available at www.canfor.com). The financial information in this interim 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 (Loss) 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 the 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 the weighted average number of shares outstanding during the period). Operating Income (Loss) 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 (Loss) 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 (Loss) 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. Throughout this discussion reference is made to the current quarter which refers to the results for the third quarter of 2016.

Factors that could impact future operations are also discussed. These factors may be influenced by both 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 October 26, 2016.

Forward Looking Statements

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.

THIRD QUARTER 2016 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q3 2016	Q2 2016	YTD 2016	Q3 2015	YTD 2015
Operating income (loss) by segment:					
Pulp	**$ 26.7**	$ 1.8	**$ 61.5**	$ 38.2	$ 92.6
Paper	**$ 7.2**	$ 5.5	**$ 21.6**	$ 7.1	$ 20.7
Unallocated	**$ (2.9)**	$ (2.1)	**$ (7.8)**	$ (3.0)	$ (8.7)
Total operating income	**$ 31.0**	$ 5.2	**$ 75.3**	$ 42.3	$ 104.6
Add: Amortization[1]	**$ 19.0**	$ 16.9	**$ 54.6**	$ 16.4	$ 47.6
Total operating income before amortization	**$ 50.0**	$ 22.1	**$ 129.9**	$ 58.7	$ 152.2
Add (deduct):					
Working capital movements	**$ (3.9)**	$ 31.9	**$ 15.2**	$ (10.5)	$ (21.1)
Defined benefit pension plan contributions, net	**$ (3.6)**	$ (1.4)	**$ (6.2)**	$ (0.5)	$ (2.2)
Income taxes paid, net	**$ (18.6)**	$ (2.6)	**$ (32.8)**	$ (18.3)	$ (34.0)
Other operating cash flows, net	**$ 2.2**	$ (1.5)	**$ (3.2)**	$ 2.8	$ 7.4
Cash from operating activities	**$ 26.1**	$ 48.5	**$ 102.9**	$ 32.2	$ 102.3
Add (deduct):					
Dividends paid	**$ (4.1)**	$ (4.3)	**$ (12.7)**	$ (83.3)	$ (92.1)
Finance expenses paid	**$ (0.8)**	$ (0.5)	**$ (2.1)**	$ (0.9)	$ (2.0)
Capital additions, net	**$ (14.0)**	$ (18.6)	**$ (45.7)**	$ (14.5)	$ (40.7)
Acquisition of Taylor Pulp Mill	**$ -**	$ -	**$ -**	$ -	$ (12.6)
Share purchases	**$ (0.3)**	$ (19.4)	**$ (24.7)**	$ (6.7)	$ (15.7)
Other, net	**$ -**	$ (3.5)	**$ (3.3)**	$ 0.1	$ 0.6
Change in cash / operating loans	**$ 6.9**	$ 2.2	**$ 14.4**	$ (73.1)	$ (60.2)
ROIC – Consolidated period-to-date[2]	**4.7%**	0.8%	**10.3%**	6.9%	17.0%
Average exchange rate (US$ per C$1.00)[3]	**$ 0.766**	$ 0.776	**$ 0.756**	$ 0.764	$ 0.794

[1] Amortization includes amortization of certain capitalized major maintenance costs.
[2] Consolidated Return on Invested Capital ("ROIC") is equal to operating income, plus realized gains/losses on derivatives and other income/expense, divided by the average invested capital during the period. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital. The year-to-date ROIC may not equal the sum of the quarterly amounts due to rounding and the impact of the average invested capital balance during the applicable period.
[3] Source – Bank of Canada (average noon rate for the period).

Analysis of Specific Material Items Affecting Comparability of Net Income

After-tax impact (millions of Canadian dollars, except per share amounts)	Q3 2016	Q2 2016	YTD 2016	Q3 2015	YTD 2015
Net income, as reported	**$ 22.4**	$ 2.2	**$ 47.7**	$ 31.2	$ 76.9
Loss on derivative financial instruments	**$ -**	$ -	**$ -**	$ 3.6	$ 7.2
Mark-to-market gain on Taylor Pulp contingent consideration[4]	**$ -**	$ -	**$ -**	$ -	$ (1.3)
Net impact of above items	**$ -**	$ -	**$ -**	$ 3.6	$ 5.9
Adjusted net income	**$ 22.4**	$ 2.2	**$ 47.7**	$ 34.8	$ 82.8
Net income per share (EPS), as reported[5]	**$ 0.34**	$ 0.03	**$ 0.70**	$ 0.45	$ 1.09
Net impact of above items per share[5]	**$ -**	$ -	**$ -**	$ 0.05	$ 0.08
Adjusted net income per share[5]	**$ 0.34**	$ 0.03	**$ 0.70**	$ 0.50	$ 1.17

[4] 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 the second quarter of 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 "Purchase of Taylor Pulp Mill" section).
[5] The year-to-date net impact of net income per share, the adjusting items per share and adjusted net income per share may not equal the sum of the quarterly per share amounts due to rounding.

The Company reported operating income of $31.0 million for the third quarter of 2016, up $25.8 million from $5.2 million reported for the second quarter of 2016. The improvement in the Company's operating results primarily reflected significantly less scheduled maintenance downtime at the Company's Northern Bleached Softwood Kraft ("NBSK") pulp mills in the current quarter. Also contributing to the third quarter results were higher pulp shipment volumes, increased energy revenues as well as an improvement in pulp and paper unit sales realizations.

Global softwood pulp markets were relatively stable through the third quarter of 2016 with the average North American US-dollar NBSK pulp list price, as published by RISI, up US$18 per tonne, or 2%, to US$998 per tonne, while the average list price to China was down US$22 per tonne, or 4%, to US$595 per tonne. NBSK pulp unit sales realizations were up slightly compared to the second quarter of 2016 as the benefit of the 1 cent, or 1%, weaker Canadian dollar more than offset modestly lower NBSK pulp prices in China during the quarter. Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") markets improved in the third quarter of 2016, positively impacting BCTMP unit sales realizations at the Company's Taylor pulp mill. Energy revenues were well up in the current quarter reflecting a return to more normalized power generation levels as well as higher energy prices.

Pulp shipment and production volumes were up 11% and 12%, respectively, from the previous quarter primarily reflecting the quarter-over-quarter impact of scheduled maintenance downtime. In the current quarter, the Company completed scheduled maintenance outages at the Prince George pulp mill and at the Taylor BCTMP mill which reduced pulp production by approximately 3,700 tonnes and 3,100 tonnes, respectively, while in the second quarter of 2016 scheduled maintenance outages and, to a lesser extent, isolated operational disruptions reduced NBSK pulp production by approximately 40,000 tonnes. NBSK pulp unit manufacturing costs were substantially lower in the current quarter principally as a result of lower maintenance costs.

Operating income in the Company's paper segment at $7.2 million was up $1.7 million from the second quarter of 2016, largely reflecting improved paper unit sales realizations as a result of a higher-value sales mix and, to a lesser extent, the favourable impact of the weaker Canadian dollar in the third quarter of 2016. The Company completed a nine day scheduled maintenance outage at the paper operations in the current quarter reducing paper production by approximately 3,300 tonnes, but this was offset by improved productivity. In the previous quarter, a five-day scheduled maintenance outage that reduced paper production by approximately 1,800 tonnes was completed.

Compared to the third quarter of 2015, operating income was down $11.3 million largely reflecting moderately lower NBSK pulp unit sales realizations and an increase in amortization expense linked to the timing of major maintenance outages, offset in part by higher energy revenues in the current quarter. The decrease in NBSK pulp unit sales realizations were largely a factor of lower US-dollar prices to China and a lower-value regional sales mix which outweighed the benefit of the slightly weaker Canadian dollar. Higher North American US-dollar list prices compared to the same quarter in 2015 were offset by increased customer discounts. Pulp unit manufacturing costs were relatively flat compared to the third quarter of 2015 as lower fibre costs were offset by a slight increase in conversion costs. Operating results in the paper segment were in line with the third quarter of 2015.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	Q3 2016	Q2 2016	YTD 2016	Q3 2015	YTD 2015
Sales	**$ 247.9**	$ 210.6	**$ 708.3**	$ 253.5	$ 719.2
Operating income before amortization[6]	**$ 44.8**	$ 17.8	**$ 113.3**	$ 53.7	$ 137.6
Operating income	**$ 26.7**	$ 1.8	**$ 61.5**	$ 38.2	$ 92.6
Average pulp price delivered to US – US$[7]	**$ 998**	$ 980	**$ 974**	$ 967	$ 981
Average price in Cdn$[7]	**$ 1,303**	$ 1,263	**$ 1,288**	$ 1,266	$ 1,236
Production – pulp (000 mt)[8]	**312.5**	279.6	**913.9**	310.5	892.9
Shipments – pulp (000 mt)[8]	**319.8**	287.2	**926.1**	307.4	871.4
Marketed on behalf of Canfor[8]	**-**	-	**-**	-	15.2

[6] Amortization includes amortization of certain capitalized major maintenance costs.
[7] Per tonne, NBSK pulp list price delivered to US (as published by RISI); Average price in Cdn$ calculated as average pulp price delivered to US – US$ multiplied by the average exchange rate – C$ per US$1.00 according to Bank of Canada average noon rate for the period.
[8] Pulp production and shipment volumes in 2015 include BCTMP volumes subsequent to CPPI's purchase of the Taylor BCTMP Mill on January 30, 2015 (see further discussion in the "Purchase of Taylor Pulp Mill" section). Following the sale, CPPI no longer markets any product on behalf of Canfor.

Overview

Operating income for the pulp segment was $26.7 million for the third quarter of 2016, up $24.9 million from the second quarter of 2016 and down $11.5 million from the same quarter in 2015.

The improvement in the pulp segment results from the second quarter of 2016 reflected a return to more normal operating rates following significant scheduled maintenance downtime at the NBSK pulp mills in the second quarter of 2016. Also contributing to improved pulp segment results in the third quarter of 2016 were increased pulp shipment volumes, higher energy revenues and a slight increase in unit NBSK pulp sales realizations. Unit manufacturing costs were substantially lower in the current quarter principally as a result of lower maintenance costs. In the previous quarter, certain Scientific Research and Experimental Development ("SR&ED") tax credits were recognized while none were recognized in the current quarter.

Compared to the third quarter of 2015, the decrease in pulp segment results reflected moderately lower NBSK pulp unit sales realizations as a result of lower average NBSK pulp prices in China combined with lower shipments to the higher-margin North American market in the current quarter. Unit manufacturing costs were relatively flat compared to the third quarter of 2015 as lower fibre costs offset a slight increase in conversion costs. Amortization expense was higher compared to the third quarter of 2015 as a result of the timing of major maintenance outages.

Markets

Global softwood pulp markets were relatively stable through the third quarter of 2016 with average NBSK pulp list prices to North America and Europe up slightly and average list prices to China decreasing modestly from the second quarter of 2016. Pulp producer inventories as of September 2016 were at 30 days of supply, an increase of 2 days from June 2016[9] partly reflecting minimal industry downtime during the third quarter of 2016. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood pulp decreased slightly in July before rebounding in August with global shipments up 3.3% for the first nine months of 2016 compared to the same period in 2015. The increase was primarily driven by increased bleached softwood pulp shipments to China and, to a lesser extent, North America[10].

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

Sales

The Company's pulp shipments for the third quarter of 2016 were 319,800 tonnes, up 32,600 tonnes, or 11%, from the previous quarter reflecting increased NBSK pulp production in the current quarter. BCTMP shipments made up approximately 16% of the current quarter's total pulp shipments, and represented a 5% decrease from the previous quarter. Compared to the third quarter of 2015, pulp shipments were up 12,400 tonnes, or 4%, with higher shipments to Korea partly offset by lower shipments to the US.

The average North American US-dollar NBSK pulp list price of US$998 per tonne, as published by RISI, was up US$18 per tonne, or 2%, from the second quarter of 2016 while the average list price to China was down US$22 per tonne, or 4%, to US$595 per tonne. Average NBSK pulp unit sales realizations showed a slight increase compared to the second quarter of 2016 principally reflecting the benefit of the 1% weaker Canadian dollar offset, in part, by modestly lower list prices to China in the third quarter of 2016. BCTMP markets improved in the third quarter of 2016 positively impacting unit sales realizations at the Company's Taylor pulp mill.

Compared to the third quarter of 2015, the average North American US-dollar NBSK pulp list price was up US$31 per tonne, or 3%, while the average US-dollar NBSK pulp list price to China was down US$43 per tonne, or 7%. With respect to North American markets, the increase in list price was partly offset by increased customer discounts. The Company's average NBSK pulp unit sales realizations were moderately lower than the third quarter of 2015 as lower US-dollar prices to China and a lower-value regional sales mix outweighed the benefit of the slightly weaker Canadian dollar. BCTMP unit sales realizations were up slightly compared to third quarter of 2015 reflecting the recovery of BCTMP prices in the current quarter.

Energy revenues returned to more normalized levels in the third quarter of 2016 following lower power generation due to the significant scheduled maintenance outages and seasonally lower energy prices in the second quarter of 2016. Compared to the same quarter in 2015, energy revenues were also up principally due to increased power generation in the current quarter.

Operations

Pulp production in the third quarter of 2016 at 312,500 tonnes was up 32,900 tonnes, or 12%, from the second quarter of 2016 principally reflecting the previous quarter's scheduled maintenance downtime at all three NBSK pulp mills. In the current quarter, the Company completed scheduled maintenance outages at the Prince George pulp mill and the Taylor BCTMP mill, reducing pulp production by 3,700 tonnes of NBSK pulp and 3,100 tonnes of BCTMP, respectively. BCTMP production made up approximately 16% of the Company's total pulp production in the third quarter of 2016.

Compared to the third quarter of 2015, pulp production was up 2,000 tonnes, or 1%, reflecting the quarter-over-quarter impact of the scheduled maintenance outages as well as higher operating rates at the Taylor BCTMP mill in the current quarter. In the comparative third quarter of 2015, the Company completed a scheduled maintenance outage at the Northwood pulp mill which reduced NBSK pulp production by approximately 6,000 tonnes.

Pulp unit manufacturing costs were well down in the current quarter, compared to the previous quarter, largely reflecting costs associated with the major maintenance outages in the second quarter of 2016. Fibre costs were relatively flat compared to the previous quarter reflecting slightly higher delivered costs for sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) offset by a decrease in the proportion of higher-cost whole log chips purchased.

Pulp unit manufacturing costs were broadly in line with the third quarter of 2015 as lower fibre costs were offset by slightly higher chemical costs in the current quarter. Fibre costs were down compared to the same quarter in the prior year reflecting lower market prices for delivered sawmill residual chips as well as a decrease in the proportion of higher-cost whole log chips.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars, unless otherwise noted)	Q3 2016	Q2 2016	YTD 2016	Q3 2015	YTD 2015
Sales	**$ 43.6**	$ 45.5	**$ 134.3**	$ 40.5	$ 123.1
Operating income before amortization[11]	**$ 8.1**	$ 6.4	**$ 24.4**	$ 8.0	$ 23.3
Operating income	**$ 7.2**	$ 5.5	**$ 21.6**	$ 7.1	$ 20.7
Production – paper (000 mt)	**32.4**	32.1	**99.8**	34.6	101.0
Shipments – paper (000 mt)	**35.5**	38.5	**108.9**	32.1	98.0

[11] Amortization includes amortization of certain capitalized major maintenance costs.

Overview

Operating income for the paper segment at $7.2 million for the third quarter of 2016 was up $1.7 million from the second quarter of 2016 and in line with the third quarter of 2015.

The increase in operating income compared to the previous quarter principally reflected modestly higher unit sales realizations in the current quarter which reflected a higher value sales mix offset, in part, by lower paper shipment volumes. The impact of greater scheduled maintenance downtime in the current quarter was mitigated by improved operating rates compared to the previous quarter. Compared to the third quarter of 2015, modestly lower unit sales realizations were offset by lower market-driven slush pulp costs and increased paper shipments.

Markets

Global kraft paper markets were relatively stable through the third quarter of 2016.

Sales

The Company's paper shipments in the third quarter of 2016 at 35,500 tonnes, were down 3,000 tonnes, or 8%, from the second quarter of 2016 and up 3,400 tonnes, or 11%, from the same quarter in 2015. Prime bleached paper shipments, which attract higher prices, were up from both the second quarter of 2016 and the same quarter in 2015. Paper shipments outpaced production by 3,100 tonnes as a result of additional scheduled maintenance downtime taken at the kraft paper machine in the current quarter resulting in a corresponding drawdown in finished kraft paper inventory.

Paper unit sales realizations in the third quarter of 2016 were up modestly from the previous quarter reflecting a higher value sales mix and, to a lesser extent, the 1% weaker Canadian dollar. Compared to the same quarter in 2015, paper unit sales realizations were modestly lower reflecting the decrease in US-dollar kraft paper prices in export markets through the second half of 2015 partly offset by a higher proportion of prime bleached paper shipments in the current quarter.

Operations

Paper production of 32,400 tonnes for the third quarter of 2016 was broadly in line with the second quarter of 2016 and down 2,200 tonnes from the same quarter in 2015. During the third quarter of 2016, the kraft paper machine completed a nine-day scheduled maintenance outage reducing paper production by approximately 3,300 tonnes. This compared to a five-day scheduled outage in the second quarter of 2016. Despite the longer scheduled maintenance outage in the current quarter, paper production was relatively flat quarter-over-quarter reflecting stronger operating rates in the current quarter. No scheduled maintenance outages were completed in the comparative third quarter in 2015.

Paper unit manufacturing costs were relatively flat compared to the second quarter of 2016 despite the more significant scheduled maintenance outage in the current quarter. Compared to the third quarter of 2015, paper unit manufacturing costs were slightly lower principally reflecting lower slush pulp costs in the current quarter.

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)	Q3 2016	Q2 2016	YTD 2016	Q3 2015	YTD 2015
Corporate costs	**$ (2.9)**	$ (2.1)	**$ (7.8)**	$ (3.0)	$ (8.7)
Finance expense, net	**$ (1.6)**	$ (1.5)	**$ (4.7)**	$ (1.7)	$ (4.3)
Loss on derivative financial instruments	**$ -**	$ -	**$ -**	$ (4.9)	$ (9.7)
Other income (expense), net	**$ 0.8**	$ 0.5	**$ (5.3)**	$ 6.2	$ 12.6

Corporate costs at $2.9 million for the third quarter of 2016 were up from the second quarter of 2016 and were broadly in line with the third quarter of 2015. The increase from the second quarter of 2016 was primarily due to the recognition of carbon offset credits in the previous quarter.

Net finance expense for the third quarter of 2016 at $1.6 million was broadly in line with both comparative periods and relates primarily to interest expense associated with the Company's employee future benefit plans and term debt.

The Company uses a variety of derivative financial instruments at times as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, interest rates and pulp prices. In the third and second quarters of 2016, the Company had no derivative financial instruments outstanding. A loss of $4.9 million was recognized in the third quarter of 2015, principally reflecting realized losses on US-dollar foreign exchange collars.

Other income of $0.8 million in the third quarter of 2016 partly reflected favourable foreign exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income (Loss)

In the third quarter of 2016, the Company recorded an after-tax loss of $1.1 million in relation to changes in the valuation of the Company's employee future benefit plans. Compared to the second quarter of 2016, the loss principally reflected a 0.1% decrease in the discount rate used to value the employee future benefit plans offset by the return generated on plan assets. This compared to an after-tax loss of $9.4 million in the previous quarter and an after-tax gain of $2.8 million in the third quarter of 2015.

During the third quarter of 2016, the Company recorded a $0.2 million (after-tax) mark-to-market gain on its equity investment in Ignite Energy Resources ("IER") as a result of favourable foreign exchange movements (see further discussion on the investment in IER in the "Licella Pulp Joint Venture" section).

SUMMARY OF FINANCIAL POSITION

The following table summarizes CPPI's cash flow and selected ratios for and as at the end of the following periods:

(millions of Canadian dollars, except for ratios)	Q3 2016	Q2 2016	YTD 2016	Q3 2015	YTD 2015
Increase (decrease) in cash and cash equivalents	**$ 6.9**	$ 2.2	**$ 14.4**	$ (73.1)	$ (60.2)
Operating activities	**$ 26.1**	$ 48.5	**$ 102.9**	$ 32.2	$ 102.3
Financing activities	**$ (5.2)**	$ (24.2)	**$ (39.5)**	$ (90.9)	$ (109.8)
Investing activities	**$ (14.0)**	$ (22.1)	**$ (49.0)**	$ (14.4)	$ (52.7)
Ratio of current assets to current liabilities			**2.4 : 1**		2.2 : 1
Net debt to capitalization			**3.7%**		6.7%
ROIC – Consolidated period-to-date	**4.7%**	0.8%	**10.3%**	6.9%	17.0%

Changes in Financial Position

Cash generated from operating activities was $26.1 million in the third quarter of 2016, down $22.4 million from the previous quarter and $6.1 million from the third quarter of 2015. The decrease in operating cash flows compared to the previous quarter principally resulted from an unfavourable movement in non-cash working capital balances as well as the timing of income tax installments and property tax payments partly offset by higher cash earnings in the third quarter of 2016. Also impacting operating cash flows in the current quarter were increased contributions to the Company's pension plans. Compared to the third quarter of 2015, the decrease in operating cash flows principally reflected lower cash earnings and the aforementioned pension contributions offset, in part, by favourable non-cash working capital movements. 2016 year-to-date operating cash flow remained consistent with the comparable period in 2015, with an improved working capital performance offsetting lower cash earnings.

Cash used for financing activities was $5.2 million in the third quarter of 2016, down $19.0 million from the previous quarter and down $85.7 million from the third quarter of 2015. Cash used for financing activities in the current quarter included the Company's quarterly dividend resulting in a payment $4.1 million ($0.0625 per share) as well as interest paid of $0.8 million, which was consistent with both comparative periods. In the third quarter of 2016, the Company did not repurchase common shares under its normal course issuer bid; however, $0.3 million was paid for common shares that were repurchased at the end of the second quarter of 2016 (see further discussion of the shares purchased under the normal course issuer bid in the following "Liquidity and Financial Requirements" section). In the third quarter of 2015, the Company paid a special dividend for $79.0 million ($1.125 per share) and a quarterly dividend for $4.3 million ($0.0625 per share).

Cash used for investing activities of $14.0 million in the current quarter related to capital expenditures associated with scheduled maintenance outages completed during the quarter as well as certain capital improvement projects.

Liquidity and Financial Requirements

At September 30, 2016, CPPI had cash of $31.9 million and an undrawn $110.0 million bank loan facility with a maturity date of January 31, 2019. CPPI had a separate facility to cover letters of credit, which expired on June 30, 2016 and was not extended. At September 30, 2016, $9.1 million of letters of credit were covered under the general operating loan facility.

CPPI has $50.0 million of floating interest rate term debt, repayable in November 2018.

The Company remained in compliance with the covenants relating to its operating loans and long-term debt during the quarter, and expects to remain so for the foreseeable future.

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. During the third quarter of 2016, CPPI did not purchase any common shares. As at October 26, 2016, Canfor's ownership interest in CPPI was 53.6%.

Dividends

On October 26, 2016, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on November 15, 2016 to the shareholders of record on November 8, 2016.

Licella Pulp Joint Venture

On May 27, 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 with the objective of economically converting biomass into biofuels and biochemicals.

Licella is a subsidiary of Ignite Energy Resources Ltd. ("IER") an Australian energy technology development company. In conjunction with the joint venture agreement, CPPI provided a $7.0 million convertible credit facility to IER, which matures on June 21, 2019. The advances on this credit facility are convertible, at CPPI's option, into common shares of IER.

During the second quarter of 2016, CPPI advanced $3.5 million to IER and exercised its option to convert the amount advanced into common shares of IER. The remaining credit facility balance of $3.5 million is anticipated to be advanced to IER during the fourth quarter of 2016.

Purchase 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 recorded in the pulp segment.

In 2015, CPPI reversed the $1.8 million contingent consideration provision resulting in a gain recorded to Other Income to reflect lower forecast BCTMP prices over the contingent consideration period. The fair value of the contingent consideration provision was nil at September 30, 2016.

OUTLOOK

Pulp and Paper Markets

NBSK pulp list prices have held up well to date in October; however, with new pulp capacity forecast to come on line, there is risk of downward pressure on pricing. For the month of October 2016, the Company's announced NBSK pulp list price is US$1,000 per tonne in North America.

Bleached kraft paper markets and prices are projected to remain relatively unchanged in the fourth quarter of 2016 and into early 2017.

All of the Company's scheduled maintenance outages have now been completed for 2016.

OUTSTANDING SHARES

At October 26, 2016, there were 66,699,368 common shares of the Company outstanding.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, pension and other employee future benefit plans and asset retirement obligations based upon 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 the Company's financial condition.

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

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 is in the process of assessing the impact, if any, on the financial statements of this new standard.

In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

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, if any, on the financial statements of this new standard.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2016, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2015 annual statutory reports which are available on www.canfor.com or www.sedar.com.

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 revaluation of outstanding derivative financial instruments.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Sales and income (millions of Canadian dollars)								
Sales	**$ 291.6**	$ 257.2	$ 295.3	$ 330.8	$ 294.1	$ 276.0	$ 273.8	$ 264.0
Operating income before amortization[12]	**$ 50.0**	$ 22.1	$ 57.8	$ 56.2	$ 58.7	$ 36.4	$ 57.1	$ 43.2
Operating income	**$ 31.0**	$ 5.2	$ 39.1	$ 38.6	$ 42.3	$ 20.9	$ 41.4	$ 28.0
Net income	**$ 22.4**	$ 2.2	$ 23.1	$ 29.7	$ 31.2	$ 17.7	$ 28.0	$ 20.7
Per common share (Canadian dollars)								
Net income – basic and diluted	**$ 0.34**	$ 0.03	$ 0.34	$ 0.43	$ 0.45	$ 0.25	$ 0.40	$ 0.29
Book value[13]	**$ 7.14**	$ 6.88	$ 7.15	$ 6.96	$ 6.65	$ 7.40	$ 7.17	$ 6.92
Dividends declared[14]	**$ 0.0625**	$ 0.0625	$ 0.0625	$ 0.0625	$ 0.0625	$ 1.1875	$ 0.0625	$ 0.0625
Common Share Repurchases								
Share volume repurchased (000 shares)	**-**	1,840	413	693	557	138	490	-
Shares repurchased (millions of Canadian dollars)	**$ -**	$ 19.5	$ 4.9	$ 9.7	$ 6.9	$ 2.0	$ 7.0	$ -
Statistics								
Pulp shipments (000 mt)	**319.8**	287.2	319.1	356.2	307.4	291.9	272.1	258.6
Paper shipments (000 mt)	**35.5**	38.5	34.9	35.4	32.1	33.8	32.1	35.8
Average exchange rate – US$/Cdn$	**$ 0.766**	$ 0.776	$ 0.728	$ 0.749	$ 0.764	$ 0.813	$ 0.806	$ 0.881
Average NBSK pulp list price delivered to US (US$)	**$ 998**	$ 980	$ 943	$ 945	$ 967	$ 980	$ 995	$ 1,025

[12] Amortization includes certain capitalized major maintenance costs.
[13] 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.
[14] Dividends declared in Q2 2015 included a quarterly dividend of $0.0625 per share and a special dividend of $1.1250 per share.

Other material factors that impact the comparability of the quarters are noted below:

After-tax impact (millions of Canadian dollars, except for per share amounts)		Q3 2016		Q2 2016		Q1 2016		Q4 2015		Q3 2015		Q2 2015		Q1 2015		Q4 2014
Net income, as reported	**$**	**22.4**	$	2.2	$	23.1	$	29.7	$	31.2	$	17.7	$	28.0	$	20.7
(Gain) loss on derivative financial instruments	**$**	**-**	$	-	$	-	$	(0.7)	$	3.6	$	(3.4)	$	7.0	$	0.6
Mark-to market gain on Taylor Pulp contingent consideration[15]	**$**	**-**	$	-	$	-	$	-	$	-	$	(1.3)	$	-	$	-
Net impact of above items	**$**	**-**	$	-	$	-	$	(0.7)	$	3.6	$	(4.7)	$	7.0	$	0.6
Adjusted net income	**$**	**22.4**	$	2.2	$	23.1	$	29.0	$	34.8	$	13.0	$	35.0	$	21.3
Net income per share (EPS), as reported[16]	**$**	**0.34**	$	0.03	$	0.34	$	0.43	$	0.45	$	0.25	$	0.40	$	0.29
Net impact of above items per share[16]	**$**	**-**	$	-	$	-	$	(0.01)	$	0.05	$	(0.07)	$	0.10	$	0.01
Adjusted net income per share[16]	**$**	**0.34**	$	0.03	$	0.34	$	0.42	$	0.50	$	0.18	$	0.50	$	0.30

[15] 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 "Purchase of Taylor Pulp Mill" section).

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

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at September 30, 2016**		As at December 31, 2015
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**31.9**	$	17.5
Accounts receivable - Trade		**87.1**		101.8
- Other		**20.7**		17.5
Inventories (Note 2)		**154.0**		163.8
Prepaid expenses		**11.3**		7.5
Total current assets		**305.0**		308.1
Property, plant and equipment		**524.6**		532.3
Other long-term assets (Note 11)		**5.1**		0.9
Total assets	**$**	**834.7**	$	841.3
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**125.9**	$	144.2
Total current liabilities		**125.9**		144.2
Long-term debt		**50.0**		50.0
Retirement benefit obligations (Note 4)		**112.5**		93.0
Other long-term provisions		**6.8**		6.2
Deferred income taxes, net		**63.0**		68.2
Total liabilities	**$**	**358.2**	$	361.6
EQUITY				
Share capital	**$**	**491.6**	$	508.2
Retained earnings (deficit)		**(15.3)**		(28.5)
Accumulated other comprehensive income		**0.2**		-
Total equity	**$**	**476.5**	$	479.7
Total liabilities and equity	**$**	**834.7**	$	841.3

Subsequent Event (Note 13)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

APPROVED BY THE BOARD

Director, S.E. Bracken-Horrocks

Director, M.J. Korenberg

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended September 30, 2016	3 months ended September 30, 2015	9 months ended September 30, 2016	9 months ended September 30, 2015
Sales	**$ 291.6**	$ 294.1	**$ 844.1**	$ 843.9
Costs and expenses				
Manufacturing and product costs	**195.2**	186.2	**573.4**	548.8
Freight and other distribution costs	**39.9**	42.4	**120.4**	122.0
Amortization	**19.0**	16.4	**54.6**	47.6
Selling and administration costs	**6.5**	6.8	**20.4**	20.9
	260.6	251.8	**768.8**	739.3
Operating income	**31.0**	42.3	**75.3**	104.6
Finance expense, net	**(1.6)**	(1.7)	**(4.7)**	(4.3)
Loss on derivative financial instruments (Note 5)	**-**	(4.9)	**-**	(9.7)
Other income (expense), net	**0.8**	6.2	**(5.3)**	12.6
Net income before income taxes	**30.2**	41.9	**65.3**	103.2
Income tax expense (Note 6)	**(7.8)**	(10.7)	**(17.6)**	(26.3)
Net income	**$ 22.4**	$ 31.2	**$ 47.7**	$ 76.9
Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 7)	**$ 0.34**	$ 0.45	**$ 0.70**	$ 1.09

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Other Comprehensive Income (Loss)

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2016**	2015	9 months ended September 30, **2016**	2015
Net income	**$ 22.4**	$ 31.2	**$ 47.7**	$ 76.9
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit pension plan actuarial gains (losses) (Note 4)	**(1.5)**	3.8	**(19.0)**	6.9
Income tax recovery (expense) on defined benefit pension plan actuarial gains (losses) (Note 6)	**0.4**	(1.0)	**5.0**	(1.8)
	(1.1)	2.8	**(14.0)**	5.1
Items that may be recycled through net income:				
Change in fair value of available-for-sale financial instruments, net of tax (Note 11)	**0.2**	-	**0.2**	-
Other comprehensive income (loss), net of tax	**(0.9)**	2.8	**(13.8)**	5.1
Total comprehensive income	**$ 21.5**	$ 34.0	**$ 33.9**	$ 82.0

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2016**	2015	9 months ended September 30, **2016**	2015
Share capital				
Balance at beginning of period	**$ 491.6**	$ 517.5	**$ 508.2**	$ 522.1
Share purchases (Note 7)	**-**	(4.1)	**(16.6)**	(8.7)
Balance at end of period	**$ 491.6**	$ 513.4	**$ 491.6**	$ 513.4
Retained earnings (deficit)				
Balance at beginning of period	**$ (32.5)**	$ 2.3	**$ (28.5)**	$ (32.5)
Net income	**22.4**	31.2	**47.7**	76.9
Defined benefit pension plan actuarial gains (losses), net of tax	**(1.1)**	2.8	**(14.0)**	5.1
Dividends declared	**(4.1)**	(83.3)	**(12.7)**	(92.1)
Share purchases (Note 7)	**-**	(2.8)	**(7.8)**	(7.2)
Balance at end of period	**$ (15.3)**	$ (49.8)	**$ (15.3)**	$ (49.8)
Accumulated other comprehensive income				
Balance at beginning of period	**$ -**	$ -	**$ -**	$ -
Change in fair value of available-for-sale financial instruments, net of tax (Note 11)	**0.2**	-	**0.2**	-
Balance at end of period	**$ 0.2**	$ -	**$ 0.2**	$ -
Total equity	**$ 476.5**	$ 463.6	**$ 476.5**	$ 463.6

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2016	2015	9 months ended September 30, 2016	2015
Cash generated from (used in):				
Operating activities				
Net income	**$ 22.4**	$ 31.2	**$ 47.7**	$ 76.9
Items not affecting cash:				
Amortization	**19.0**	16.4	**54.6**	47.6
Income tax expense	**7.8**	10.7	**17.6**	26.3
Changes in mark-to-market value of derivative financial instruments	**-**	0.4	**-**	1.3
Employee future benefits	**1.2**	1.4	**3.7**	4.2
Finance expense, net	**1.6**	1.7	**4.7**	4.3
Other, net	**0.2**	(0.3)	**(1.6)**	(1.0)
Defined benefit pension plan contributions, net	**(3.6)**	(0.5)	**(6.2)**	(2.2)
Income taxes paid, net	**(18.6)**	(18.3)	**(32.8)**	(34.0)
	30.0	42.7	**87.7**	123.4
Net change in non-cash working capital (Note 8)	**(3.9)**	(10.5)	**15.2**	(21.1)
	26.1	32.2	**102.9**	102.3
Financing activities				
Finance expenses paid	**(0.8)**	(0.9)	**(2.1)**	(2.0)
Dividends paid	**(4.1)**	(83.3)	**(12.7)**	(92.1)
Share purchases (Note 7)	**(0.3)**	(6.7)	**(24.7)**	(15.7)
	(5.2)	(90.9)	**(39.5)**	(109.8)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(14.0)**	(14.5)	**(45.7)**	(40.7)
Acquisition of Taylor pulp mill (Note 12)	**-**	-	**-**	(12.6)
Other, net	**-**	0.1	**(3.3)**	0.6
	(14.0)	(14.4)	**(49.0)**	(52.7)
Increase (decrease) in cash and cash equivalents*	**6.9**	(73.1)	**14.4**	(60.2)
Cash and cash equivalents at beginning of period*	**25.0**	89.7	**17.5**	76.8
Cash and cash equivalents at end of period*	**$ 31.9**	$ 16.6	**$ 31.9**	$ 16.6

*Cash and cash equivalents include cash on hand less unpresented cheques.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Pulp Products Inc. ("CPPI") and its subsidiary entities, hereinafter referred to as "CPPI" or "the Company." At October 26, 2016, Canfor Corporation ("Canfor") held a 53.6% interest in CPPI.

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2015, available at www.canfor.com or www.sedar.com.

These financial statements were authorized for issue by the Company's Board of Directors on October 26, 2016.

Accounting Standards Issued and Not Applied

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 is in the process of assessing the impact, if any, on the financial statements of this new standard.

In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

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, if any, on the financial statements of this new standard.

2. Inventories

(millions of Canadian dollars, unaudited)		**As at September 30, 2016**		As at December 31, 2015
Pulp	**$**	**64.5**	$	71.2
Paper		**13.7**		20.9
Wood chips and logs		**24.4**		21.9
Materials and supplies		**51.4**		49.8
	$	**154.0**	$	163.8

The above inventory balances are stated after inventory write-downs from cost to net realizable value. There were no inventory write-downs at September 30, 2016 (December 31, 2015 - $0.5 million).

3. Operating Loans

Available Operating Loans

(millions of Canadian dollars, unaudited)		**As at September 30, 2016**		As at December 31, 2015
Operating loan facility	**$**	**110.0**	$	110.0
Facility for letters of credit		**-**		20.0
Total operating loan facility		**110.0**		130.0
Letters of credit		**(9.1)**		(13.0)
Total available operating loan facility	**$**	**100.9**	$	117.0

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization, and is based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. The facility has certain financial covenants including a covenant based on maximum debt to total capitalization of the Company. In 2015, the maturity date of this facility was extended to January 31, 2019 and the minimum net worth financial covenant, which was based on shareholders' equity, was removed.

CPPI had a separate facility to cover letters of credit, which expired on June 30, 2016 and was not extended. At September 30, 2016, $9.1 million of letters of credit outstanding are covered under the general operating loan facility.

As at September 30, 2016, the Company was in compliance with all covenants relating to its operating loans.

4. Employee Future Benefits

For the three months ended September 30, 2016, defined benefit pension plan actuarial losses of $1.5 million (before tax) were recognized in other comprehensive income (loss). The losses recorded in the third quarter of 2016 principally reflect a lower discount rate used to value the net defined benefit pension plan obligations offset by the return generated on plan assets. For the nine months ended September 30, 2016, an amount of $19.0 million (before tax) was charged to other comprehensive income (loss). For the three and nine months ended September 30, 2015, the Company recognized before tax actuarial gains in other comprehensive income (loss) of $3.8 million and $6.9 million, respectively.

For the Company's employee future benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would decrease the accrued benefit obligation by an estimated $26.3 million.

The discount rate assumptions used to estimate the changes in net retirement benefit obligations were as follows:

	Pension Benefit Plans	Other Benefit Plans
September 30, 2016	**3.4%**	**3.4%**
June 30, 2016	3.5%	3.5%
December 31, 2015	4.1%	4.1%
September 30, 2015	4.1%	4.1%
June 30, 2015	3.9%	3.9%
December 31, 2014	3.9%	3.9%

5. Financial Instruments

CPPI's cash and cash equivalents, accounts receivable, loans and advances, operating loans, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost subsequent to initial recognition. At September 30, 2016, the fair value of the Company's long-term debt approximates its amortized cost of $50.0 million (December 31, 2015 - $50.0 million).

Derivative instruments are measured at fair value. IFRS 13, *Fair Value Measurement*, requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;

Level 3 – Inputs that are not based on observable market data.

The Company uses a variety of derivative financial instruments, which are included in Level 2 of the fair value hierarchy, to reduce its exposure to risks associated with fluctuations in foreign exchange rates, energy costs, and floating interest rates on long-term debt. As at September 30, 2016 and December 31, 2015, the Company had no derivative financial instruments outstanding.

The following table summarizes the loss on derivative financial instruments for the three and nine month periods ended September 30, 2016 and 2015:

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2016**	3 months ended September 30, 2015	9 months ended September 30, **2016**	9 months ended September 30, 2015
Foreign exchange collars	**$ -**	$ (4.2)	**$ -**	$ (9.1)
Crude oil collars	**-**	(0.7)	**-**	(0.5)
Interest rate swaps	**-**	-	**-**	(0.1)
Loss on derivative financial instruments	**$ -**	$ (4.9)	**$ -**	$ (9.7)

6. Income Taxes

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2016**	3 months ended September 30, 2015	9 months ended September 30, **2016**	9 months ended September 30, 2015
Current	**$ (7.8)**	$ (11.9)	**$ (17.8)**	$ (28.1)
Deferred	**-**	1.2	**0.2**	1.8
Income tax expense	**$ (7.8)**	$ (10.7)	**$ (17.6)**	$ (26.3)

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

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2016**	3 months ended September 30, 2015	9 months ended September 30, **2016**	9 months ended September 30, 2015
Income tax expense at statutory rate 2016 – 26.0% (2015 – 26.0%)	**$ (7.9)**	$ (10.9)	**$ (17.0)**	$ (26.8)
Add (deduct):				
Entities with different income tax rates and other tax adjustments	**0.1**	0.2	**(0.6)**	0.5
Income tax expense	**$ (7.8)**	$ (10.7)	**$ (17.6)**	$ (26.3)

In addition to the amounts recorded to net income, a tax recovery of $0.4 million was recorded in other comprehensive income (loss) for the three months ended September 30, 2016 (three months ended September 30, 2015 - tax expense of $1.0 million) in relation to the actuarial gains (losses) on defined benefit employee compensation plans. For the nine month period ended September 30, 2016, a tax recovery of $5.0 million was recorded in other comprehensive income (loss) (nine months ended September 30, 2015 - tax expense of $1.8 million).

7. Earnings per Share and Normal Course Issuer Bid

Basic net income per share is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the period.

	3 months ended September 30, **2016**	3 months ended September 30, 2015	9 months ended September 30, **2016**	9 months ended September 30, 2015
Weighted average number of common shares	**66,699,368**	69,948,740	**67,793,394**	70,335,187

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. During the third quarter of 2016, CPPI did not purchase any common shares. In early July, $0.3 million was paid for shares purchased at the end of the second quarter of 2016. As at October 26, 2016, there were 66,699,368 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 53.6%.

8. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2016	3 months ended September 30, 2015	9 months ended September 30, 2016	9 months ended September 30, 2015
Accounts receivable	**$ (5.1)**	$ 6.1	**$ 15.4**	$ (9.5)
Inventories	**14.2**	(8.5)	**9.7**	(18.8)
Prepaid expenses	**(3.0)**	(5.2)	**(3.7)**	0.9
Accounts payable and accrued liabilities	**(10.0)**	(2.9)	**(6.2)**	6.3
Net decrease (increase) in non-cash working capital	**$ (3.9)**	$ (10.5)	**$ 15.2**	$ (21.1)

9. Segment Information

The Company has two reportable segments which operate as separate business units and represent separate product lines.

Sales between the pulp and paper segments are accounted for at prices that approximate fair value. These include sales of slush pulp from the pulp segment to the paper segment.

(millions of Canadian dollars, unaudited)	Pulp	Paper	Unallocated	Elimination Adjustment	Consolidated
3 months ended September 30, 2016					
Sales to external customers	**$ 247.9**	**43.6**	**0.1**	**-**	**$ 291.6**
Sales to other segments	**$ 20.4**	**-**	**-**	**(20.4)**	**$ -**
Operating income (loss)	**$ 26.7**	**7.2**	**(2.9)**	**-**	**$ 31.0**
Amortization	**$ 18.1**	**0.9**	**-**	**-**	**$ 19.0**
Capital expenditures[1]	**$ 12.8**	**0.8**	**0.4**	**-**	**$ 14.0**
3 months ended September 30, 2015					
Sales to external customers	$ 253.5	40.5	0.1	-	$ 294.1
Sales to other segments	$ 23.9	-	-	(23.9)	$ -
Operating income (loss)	$ 38.2	7.1	(3.0)	-	$ 42.3
Amortization	$ 15.5	0.9	-	-	$ 16.4
Capital expenditures[1]	$ 12.9	1.6	-	-	$ 14.5
9 months ended September 30, 2016					
Sales to external customers	**$ 708.3**	**134.3**	**1.5**	**-**	**$ 844.1**
Sales to other segments	**$ 63.1**	**-**	**-**	**(63.1)**	**$ -**
Operating income (loss)	**$ 61.5**	**21.6**	**(7.8)**	**-**	**$ 75.3**
Amortization	**$ 51.8**	**2.8**	**-**	**-**	**$ 54.6**
Capital expenditures[1]	**$ 44.0**	**1.3**	**0.4**	**-**	**$ 45.7**
Identifiable assets	**$ 727.1**	**55.3**	**52.3**	**-**	**$ 834.7**
9 months ended September 30, 2015					
Sales to external customers	$ 719.2	123.1	1.6	-	$ 843.9
Sales to other segments	$ 69.8	-	-	(69.8)	$ -
Operating income (loss)	$ 92.6	20.7	(8.7)	-	$ 104.6
Amortization	$ 45.0	2.6	-	-	$ 47.6
Capital expenditures[1]	$ 35.3	5.4	-	-	$ 40.7
Identifiable assets	$ 715.1	61.8	31.2	-	$ 808.1

[1]Capital expenditures represent cash paid for capital assets during the periods and include capital expenditures that were partially financed by government grants. Capital expenditures for the nine months ended September 30, 2015 exclude the assets purchased as part of the acquisition of the Taylor pulp mill (Note 12).

10. Related Party Transactions

For the nine months ended September 30, 2016, the Company depended on Canfor to provide approximately 63% (nine months ended September 30, 2015 - 61%) of its fibre supply as well as certain key business and administrative services. As a result of these relationships the Company considers its operations to be dependent on its ongoing relationship with Canfor. The transactions with Canfor are consistent with the transactions described in the December 31, 2015 audited consolidated financial statements of CPPI and are based on agreed upon amounts between the parties. Transactions and payables to Canfor include purchases of wood chips, logs, pulp and administrative services. These are summarized below:

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2016**	3 months ended September 30, 2015	9 months ended September 30, **2016**	9 months ended September 30, 2015
Transactions				
Purchase of wood chips and other	**$ 39.0**	$ 48.7	**$ 120.9**	$ 125.0

(millions of Canadian dollars, unaudited)	**As at September 30, 2016**	As at December 31, 2015
Balance Sheet		
Included in accounts payable and accrued liabilities	**$ 10.8**	$ 15.6

11. Licella Pulp Joint Venture

On May 27, 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 biofuels and biochemicals.

Licella is a subsidiary of Ignite Energy Resources Ltd. ("IER") an Australian energy technology development company. In conjunction with the joint venture agreement, CPPI provided a $7.0 million convertible credit facility to IER, which matures on June 21, 2019. The advances on this credit facility are convertible, at CPPI's option, into common shares of IER.

During the second quarter of 2016, CPPI advanced $3.5 million to IER and exercised its option to convert the amount advanced into common shares of IER. The equity investment is classified as a level 3 available-for-sale financial instrument and is measured at fair value at each reporting period with any gains or losses recognized through other comprehensive income. At September 30, 2016, the fair value of the financial instrument is $3.8 million resulting in a gain of $0.2 million (after-tax) recorded in other comprehensive income (loss) in the third quarter of 2016.

The remaining credit facility balance of $3.5 million is anticipated to be advanced to IER during the fourth quarter of 2016.

12. Purchase 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 recorded 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 to reflect lower forecast Bleached Chemi-Thermo Mechanical Pulp prices over the contingent consideration period. The fair value of the contingent consideration provision was nil at September 30, 2016.

13. Subsequent Event

On October 26, 2016, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on November 15, 2016, to shareholders of record on November 8, 2016.