CANFOR PULP PRODUCTS INC.

2017
FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY

The information and representations in these consolidated financial statements are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards and, where necessary, reflect management's best estimates and judgments at this time. It is reasonably possible that circumstances may arise which cause actual results to differ. Management does not believe it is likely that any differences will be material.

Canfor Pulp Products Inc. maintains systems of internal controls over financial reporting, policies and procedures to provide reasonable assurance as to the reliability of the financial records and the safeguarding of its assets.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out these activities primarily through its Audit Committee.

The Audit Committee is comprised of three Directors who are not employees of the Company. The Committee meets periodically throughout the year with management, external auditors and internal auditors to review their respective responsibilities, results of the reviews of internal controls over financial reporting, policies and procedures and financial reporting matters. The external and internal auditors meet separately with the Audit Committee.

The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The consolidated financial statements have been audited by KPMG LLP, the external auditors, whose report follows.

February 22, 2018

"*Don B. Kayne*"

Don B. Kayne
Chief Executive Officer

"*Alan Nicholl*"

Alan Nicholl
Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canfor Pulp Products Inc.

We have audited the accompanying consolidated financial statements of Canfor Pulp Products Inc., which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016, the consolidated statements of income, other comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Canfor Pulp Products Inc. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

February 22, 2018
Vancouver, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

Canfor Pulp Products Inc.
Consolidated Balance Sheets

(millions of Canadian dollars)	**As at December 31, 2017**	As at December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	**$ 76.7**	$ 51.9
Accounts receivable - Trade	**101.5**	75.9
- Other	**17.1**	16.8
Inventories (Note 5)	**165.5**	166.5
Prepaid expenses	**4.2**	5.1
Total current assets	**365.0**	316.2
Property, plant and equipment and intangible assets (Note 6)	**526.7**	520.4
Other long-term assets	**0.5**	0.5
Total assets	**$ 892.2**	$ 837.1
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	**$ 161.5**	$ 125.4
Total current liabilities	**161.5**	125.4
Long-term debt (Note 9)	**-**	50.0
Retirement benefit obligations (Note 10)	**85.2**	109.1
Other long-term provisions	**6.5**	6.2
Deferred income taxes, net (Note 14)	**67.6**	61.7
Total liabilities	**$ 320.8**	$ 352.4
EQUITY		
Share capital (Note 12)	**$ 480.9**	$ 491.6
Retained earnings (deficit)	**90.5**	(6.9)
Total equity	**$ 571.4**	$ 484.7
Total liabilities and equity	**$ 892.2**	$ 837.1

Commitments (Note 18) and **Subsequent Event** (Note 23)

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

APPROVED BY THE BOARD

"S.E. Bracken-Horrocks"

Director, S.E. Bracken-Horrocks

"C.A. Pinette"

Director, C.A. Pinette

Canfor Pulp Products Inc.
Consolidated Statements of Income

(millions of Canadian dollars, except per share data)	Years ended December 31, **2017**	2016
Sales	**$ 1,197.9**	$ 1,101.9
Costs and expenses		
Manufacturing and product costs	**786.7**	746.8
Freight and other distribution costs	**155.0**	155.5
Amortization	**74.4**	73.8
Selling and administration costs	**27.2**	27.6
	1,043.3	1,003.7
Operating income	**154.6**	98.2
Finance expense, net (Note 13)	**(7.2)**	(6.6)
Other expense, net	**(6.5)**	(10.4)
Net income before income taxes	**140.9**	81.2
Income tax expense (Note 14)	**(38.8)**	(23.4)
Net income	**$ 102.1**	$ 57.8
Net income per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 12)	**$ 1.55**	$ 0.86

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

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

(millions of Canadian dollars)		Years ended December 31, **2017**		2016
Net income	**$**	**102.1**	$	57.8
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (losses) (Note 10)		**25.2**		(15.5)
Income tax recovery (expense) on defined benefit plan actuarial losses/gains (Note 14)		**(6.3)**		4.0
Other comprehensive income (loss), net of tax		**18.9**		(11.5)
Total comprehensive income	**$**	**121.0**	$	46.3

Consolidated Statements of Changes in Equity

(millions of Canadian dollars)		Years ended December 31, **2017**		2016
Share capital				
Balance at beginning of year	**$**	**491.6**	$	508.2
Share purchases (Note 12)		**(10.7)**		(16.6)
Balance at end of year (Note 12)	**$**	**480.9**	$	491.6
Retained earnings (deficit)				
Balance at beginning of year	**$**	**(6.9)**	$	(28.5)
Net income		**102.1**		57.8
Defined benefit plan actuarial gains (losses), net of tax		**18.9**		(11.5)
Dividends declared		**(16.5)**		(16.9)
Share purchases (Note 12)		**(7.1)**		(7.8)
Balance at end of year	**$**	**90.5**	$	(6.9)
Total equity	**$**	**571.4**	$	484.7

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

Canfor Pulp Products Inc.
Consolidated Statements of Cash Flows

(millions of Canadian dollars)	Years ended December 31, 2017	2016
Cash generated from (used in):		
Operating activities		
Net income	**$ 102.1**	$ 57.8
Items not affecting cash:		
Amortization	**74.4**	73.8
Income tax expense	**38.8**	23.4
Employee future benefits	**4.3**	5.1
Finance expense, net	**7.2**	6.6
Write-down of advances to Licella (Note 21)	**-**	7.0
Other, net	**0.4**	(0.8)
Defined benefit plan contributions, net	**(7.0)**	(8.3)
Income taxes paid, net	**(19.1)**	(33.6)
	201.1	131.0
Net change in non-cash working capital (Note 15)	**(6.4)**	19.0
	194.7	150.0
Financing activities		
Repayment of long-term debt (Note 9)	**(50.0)**	-
Finance expenses paid	**(3.3)**	(3.2)
Dividends paid	**(16.5)**	(16.9)
Share purchases (Note 12)	**(17.7)**	(24.7)
	(87.5)	(44.8)
Investing activities		
Additions to property, plant and equipment and intangible assets, net (Note 6)	**(83.1)**	(64.0)
Advances to Licella (Note 21)	**-**	(7.0)
Other, net	**0.7**	0.2
	(82.4)	(70.8)
Increase in cash and cash equivalents*	**24.8**	34.4
Cash and cash equivalents at beginning of year*	**51.9**	17.5
Cash and cash equivalents at end of year*	**$ 76.7**	$ 51.9

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

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

1. Reporting Entity

Canfor Pulp Products Inc. ("CPPI") is a company incorporated and domiciled in Canada and listed on The Toronto Stock Exchange. The address of the Company's registered office is 100-1700 West 75th Avenue, Vancouver, British Columbia, Canada, V6P 6G2. The consolidated financial statements of the Company as at and for the year ended December 31, 2017 comprise the Company and its subsidiaries (together referred to as "CPPI" or "the Company"). 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, 2017, and February 22, 2018, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI, an increase of 1.2% from December 31, 2016 as a result of share purchases in 2017 (Note 12).

2. Basis of Preparation

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on February 22, 2018.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following material items:

- Financial instruments classified as fair value through net income are measured at fair value;
- Financial instruments classified as available-for-sale are measured at fair value with gains or losses, other than impairment losses, recorded in other comprehensive income until realized;
- Asset retirement obligations are measured at the discounted value of expected future cash flows; and
- The retirement benefit surplus and obligation related to the defined benefit pension plans are net of the accrued benefit obligation and the fair value of the plan assets.

Use of estimates and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Company regularly reviews its estimates and assumptions; however, it is possible that circumstances may arise which may cause actual results to differ from management estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the applicable notes:

- Note 6 – Property, Plant and Equipment and Intangible Assets;
- Note 10 – Employee Future Benefits;
- Note 11 – Asset Retirement Obligations;
- Note 14 – Income Taxes; and
- Note 21 – Licella Pulp Joint Venture.

Certain comparative amounts for the prior year have been reclassified to conform to the current year's presentation.

3. Significant Accounting Policies

The following accounting policies have been applied to the financial information presented.

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when CPPI is able to govern the financial and operating activities of those other entities to generate returns for the Company. Inter-company transactions, balances and unrealized gains and losses on transactions between different entities within the Company are eliminated.

For joint operations, the Company recognizes its assets, liabilities and transactions, including its share of those incurred jointly, in its consolidated financial statements.

Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and highly liquid money market instruments with original maturities, or redemption dates, of three months or less from the date of acquisition, and are valued at cost, which approximates market value. Cash is presented net of unpresented cheques. When the amount of unpresented cheques is greater than the amount of cash, the net amount is presented as cheques issued in excess of cash on hand. Interest is earned at variable rates dependent on amount, credit quality and term of the Company's deposits.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and advances, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through net income, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

- Financial assets at fair value through net income - An instrument is classified at fair value through net income if it is held for trading or is designated as such upon initial recognition. Financial instruments at fair value through net income are measured at fair value, and changes therein are recognized in the statements of income, with attributable transaction costs being recognized in net income when incurred.
- Available-for-sale financial assets - Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. These are measured at fair value through other comprehensive income, other than impairment losses.
- Loans and receivables - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured initially at fair value and subsequently at amortized cost using the effective interest method, less any impairment losses. The effective interest method spreads the total costs of or income from a financial instrument over the life of the instrument. Financial assets included within this category for CPPI are trade and other receivables, and cash and cash equivalents.
- Other liabilities - All of CPPI's financial liabilities are measured initially at fair value less transaction costs, and subsequently at amortized cost using the effective interest method.

Derivative financial instruments

CPPI uses derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange, interest rate, commodity price, and energy price risk. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Company's derivative financial instruments are not designated as hedges for accounting purposes. Consequently, such derivatives for which hedge accounting is not applied are carried on the balance sheet at fair value, with changes in fair value (realized and unrealized) being recognized in the statements of income as 'gain (loss) on derivative financial instruments'.

The fair value of the derivatives is determined with reference to period end market trading prices for derivatives with comparable characteristics.

Inventories

Inventories include pulp, paper, wood chips, logs, and materials and supplies. These are measured at the lower of cost and net realizable value, and are presented net of applicable write-downs. 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.

Property, plant and equipment

Items of property, plant and equipment, including expenditure on major overhauls, are measured at cost less accumulated amortization and impairment losses.

Cost includes expenditures which are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs (as applicable), and any other costs directly attributable to bringing assets to be used in the manner intended by management.

Expenditure on major overhauls, refits or repairs is capitalized where it enhances the life or performance of an asset above its originally assessed standard of performance. Certain expenditures relating to replacement of components incurred during major maintenance are capitalized and amortized over the estimated benefit period of such expenditures. The costs of the day-to-day servicing of property, plant and equipment are recognized in net income as incurred.

The cost of replacing a major component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to CPPI and its cost can be measured reliably. The carrying amount of the replaced component is removed.

Amortization is recognized in net income on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, as set out in the table below. Land is not amortized. The majority of CPPI's amortization expense for property, plant and equipment relates to manufacturing and product costs.

Amortization methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date. The following rates have been applied to CPPI's capital assets:

Buildings, roads and paving	10 to 40 years
Pulp and paper machinery and equipment	8 to 20 years
Mobile equipment	4 years
Office furniture and equipment	10 years
Major overhauls	1 to 5 years

Intangible assets

Computer software

Software development costs relate to major software systems purchased or developed by the Company. These costs are amortized on a straight-line basis over periods not exceeding four to ten years.

Government assistance

Government assistance relating to the acquisition of property, plant and equipment is recorded as a reduction of the cost of the asset to which it relates, with any amortization calculated on the net amount. Government grants related to income are recognized as income or a reimbursement of costs on a systematic basis over the periods necessary to match them with the related costs which they were intended to compensate.

Asset impairment

CPPI's property, plant and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized in net income at the amount 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of cash inflows from other assets or groups of assets (cash-generating unit or "CGU").

Non-financial assets, for which impairment was recorded in a prior period, are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset cannot exceed the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized in prior years.

Financial assets are reviewed at each reporting date to determine whether there is evidence indicating they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative impact on estimated future cash flows from that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in net income and are not reversed.

Employee future benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity makes contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee future benefits expense when they are earned.

For hourly employees covered by forest industry union defined contribution or benefit plans, the statement of income is charged with CPPI's contributions required under the collective agreements.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. CPPI, in participation with Canfor, has defined benefit plans that provide both pension and other non-pension post-retirement benefits to certain salaried employees, and certain hourly employees not covered by forest industry union plans. The other non-pension post-retirement benefits include certain health care benefits and pension bridging benefits to eligible retired employees.

The surplus and or obligation recognized in the balance sheet in respect of a defined benefit pension plan is the net of the accrued benefit obligation and the fair value of the plan assets. The accrued benefit obligation, the related service cost and, where applicable, the past service cost is determined separately for each defined benefit pension plan based on actuarial determinations using the projected unit credit method. Under the projected unit credit method, the accrued benefit obligation is calculated as the present value of each member's prospective benefits earned in respect of credited service prior to the valuation date and the related service cost is calculated as the present value of the benefits the member is assumed to earn for credited service in the ensuing year. The actuarial assumptions used in these calculations, such as salary escalation and health care inflation, are based upon best estimates selected by CPPI. The discount rate assumptions are based on the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of CPPI's obligations.

Actuarial gains and losses can arise from differences between actual and expected outcomes or changes in the actuarial assumptions or legislated amounts payable. Actuarial gains and losses, including the return on plan assets, are recognized in other comprehensive income in the period in which they occur.

Provisions

CPPI recognizes a provision if, as a result of a past event, it has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision recorded is management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The expense arising from the unwinding of the discount due to the passage of time is recorded as a finance expense. The main class of provision recognized by CPPI is as follows:

Asset retirement obligations

CPPI recognizes a liability for asset retirement obligations in the period in which they are incurred. The site restoration costs are capitalized as part of the cost of the related item of property, plant and equipment and amortized on a basis consistent with the expected useful life of the related asset. Asset retirement obligations are discounted at the risk-free rate in effect at the balance sheet date.

Revenue recognition

CPPI's revenues are substantially derived from the sale of pulp, paper and energy. Revenue is measured at the fair value of the consideration received or receivable net of applicable sales taxes, returns, rebates and discounts and after eliminating sales within the Company. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible returns of the goods can be estimated reliably, there is no continuing management involvement with the goods, and the amounts of revenue can be measured reliably. Energy revenue is recognized when CPPI has met the terms and conditions under both its electricity purchase and load displacement agreements.

Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by CPPI are reported as a component of freight and other distribution costs.

Income taxes

Income tax expense comprises current and deferred taxes. Current and deferred taxes are recognized in net income except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

CPPI recognizes deferred income tax in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at tax rates expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Investment tax credits are credited to manufacturing and product costs in the period in which it becomes reasonably assured that the Company is entitled to them. Unused investment tax credits are recorded as other current or long-term assets in the Company's balance sheet, depending upon when the benefit is expected to be received.

Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The majority of CPPI's sales are denominated in foreign currencies, principally the US dollar. Transactions in foreign currencies are translated to the functional currency at exchange rates on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate on that date. Foreign currency differences arising on translation are recognized in net income.

The assets and liabilities of foreign operations are translated to the Canadian dollar at exchange rates on the reporting date. The income and expenses of foreign operations are translated to the Canadian dollar at exchange rates on the transaction dates. Foreign exchange differences are recognized in other comprehensive income.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. Segment results reported to the chief operating decision-maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-bearing liabilities, head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets.

4. Accounting Standards Issued and Not Applied

In May 2014, the 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 an assessment of the impact of the new standard, and has determined that adoption of this standard will have no significant impact on the Company's financial statements.

In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018. The Company has performed an assessment of the impact of the new standard, and has determined that adoption of this standard will have no significant impact on the Company's 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. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will change as IFRS 16 replaces straight-line operating lease expense with a depreciation expense for right-of-use assets and interest expense on lease liabilities.

It is expected that IFRS 16 will have an impact on the Company's financial statements with recognition of new assets and liabilities for its operating leases. The Company is still in the process of assessing the quantitative impact on its financial statements of this new standard. The Company's future minimum lease payments, on an undiscounted basis, under non-cancellable operating leases at December 31, 2017 is disclosed in Note 18, Commitments.

5. Inventories

(millions of Canadian dollars)	**As at December 31, 2017**	As at December 31, 2016
Pulp	**$ 78.5**	$ 84.2
Paper	**14.9**	15.7
Wood chips and logs	**19.9**	15.4
Materials and supplies	**52.2**	51.2
	$ 165.5	$ 166.5

There were no inventory write-downs at December 31, 2017 or December 31, 2016.

In 2017, total manufacturing and product costs were $786.7 million (December 31, 2016 - $746.8 million), of which $429.2 million was related to the costs of raw materials, consumables and changes in finished products (December 31, 2016 - $394.7 million).

6. Property, Plant and Equipment and Intangible Assets

(millions of Canadian dollars)	Land and improvements	Buildings, machinery and equipment	Other property, plant and equipment[2]	Construction in progress	Intangible assets[3]	Total property, plant and equipment and intangible assets
Cost						
Balance at January 1, 2016	$ 5.4	$ 1,540.4	$ 44.0	$ 16.1	$ 7.1	$ 1,613.0
Additions[1]	-	-	-	63.7	1.3	65.0
Disposals	-	(10.6)	(15.3)	-	-	(25.9)
Transfers	-	48.5	13.0	(61.5)	-	-
Balance at December 31, 2016	$ 5.4	$ 1,578.3	$ 41.7	$ 18.3	$ 8.4	$ 1,652.1
Additions[1]	-	-	-	77.5	4.8	82.3
Disposals	-	(38.7)	(25.4)	-	(1.5)	(65.6)
Transfers	-	28.8	23.3	(52.1)	-	-
Balance at December 31, 2017	$ 5.4	$ 1,568.4	$ 39.6	$ 43.7	$ 11.7	$ 1,668.8
Amortization						
Balance at January 1, 2016	$ -	$ (1,057.8)	$ (15.8)	$ -	$ (6.7)	$ (1,080.3)
Amortization for the year	-	(50.5)	(23.3)	-	-	(73.8)
Disposals	-	7.3	15.1	-	-	22.4
Balance at December 31, 2016	$ -	$ (1,101.0)	$ (24.0)	$ -	$ (6.7)	$ (1,131.7)
Amortization for the year	-	(53.4)	(20.9)	-	(0.1)	(74.4)
Disposals	-	37.1	25.4	-	1.5	64.0
Balance at December 31, 2017	$ -	$ (1,117.3)	$ (19.5)	$ -	$ (5.3)	$ (1,142.1)
Carrying Amounts						
At January 1, 2016	$ 5.4	$ 482.6	$ 28.2	$ 16.1	$ 0.4	$ 532.7
At December 31, 2016	$ 5.4	$ 477.3	$ 17.7	$ 18.3	$ 1.7	$ 520.4
At December 31, 2017	**$ 5.4**	**$ 451.1**	**$ 20.1**	**$ 43.7**	**$ 6.4**	**$ 526.7**

[1]Net of capital expenditures financed by government grants.
[2] Other property, plant and equipment is comprised of buildings, machinery and equipment, as well as capitalized landfill retirement costs.
[3]At December 31, 2017, Intangible assets contained $5.7 million of work in progress assets (December 31, 2016 - $1.0 million) and as such had no related amortization in the period.

7. Accounts Payable and Accrued Liabilities

(millions of Canadian dollars)	**As at December 31, 2017**	As at December 31, 2016
Trade payables and accrued liabilities	**$ 102.6**	$ 86.9
Accrued payroll and related liabilities	**39.7**	37.4
Income tax payable	**19.2**	1.1
	$ 161.5	$ 125.4

8. Operating Loans

(millions of Canadian dollars)	**As at December 31, 2017**	As at December 31, 2016
Available operating loans:		
Operating loan facility	**$ 110.0**	$ 110.0
Letters of credit	**(9.2)**	(9.3)
Total available operating loan facility	**$ 100.8**	$ 100.7

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 2016, the maturity date of this facility was extended to January 31, 2020. No amounts were drawn on the operating loan facility as at December 31, 2017 or December 31, 2016.

As at December 31, 2017, the Company is in compliance with all covenants relating to its operating loan.

9. Long-Term Debt

On December 29, 2017, the Company repaid the full principal balance of its term loan of $50.0 million. Prior to repayment, the interest rate on the term loan was based on the lenders' Canadian prime rate or bankers' acceptance rate in the year of payment.

10. Employee Future Benefits

The Company, in participation with Canfor, has several funded and unfunded defined benefit pension plans, defined contribution plans, and other non-pension post-retirement benefit plans that provide benefits to substantially all salaried employees and certain hourly employees. The defined benefit pension plans are based on 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.

Total cash payments for employee future benefits for 2017 were $16.8 million (December 31, 2016 - $17.8 million), consisting of cash contributed by CPPI to its funded pension plans, cash payments directly to beneficiaries for its unfunded other non-pension post-retirement benefit plans, and cash contributed to its defined contribution and other plans.

Defined benefit plans

CPPI measures its accrued retirement benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

As at December 31, 2017, CPPI has one registered defined benefit pension plan for which an actuarial valuation is performed every three years. The largest pension plan underwent an actuarial valuation for funding purposes as of December 31, 2015, which was completed in 2016. In addition, CPPI has other non-contributory benefit plans that provide certain non-pension post-retirement benefits to its members. The other non-contributory plans also underwent a valuation as of December 31, 2015, which was completed in 2016.

Information about CPPI's defined benefit plans, in aggregate, is as follows:

Fair market value of plan assets	**2017**		2016	
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Beginning of year	**$ 123.9**	**$ -**	$ 119.0	$ -
Interest income on plan assets	**4.8**	**-**	4.9	-
Return on plan assets greater (less) than discount rate	**1.8**	**-**	(1.6)	-
Employer contributions	**4.3**	**2.7**	6.3	2.0
Employee contributions	**0.1**	**-**	0.1	-
Benefit payments	**(4.7)**	**(2.7)**	(4.7)	(2.0)
Administration expense	**(0.1)**	**-**	(0.1)	-
End of year	**$ 130.1**	**$ -**	$ 123.9	$ -

Plan assets consist of the following:	**As at December 31, 2017**	As at December 31, 2016
	Percentage of Plan Assets	
Asset category		
Equity securities	**22%**	15%
Debt securities	**5%**	56%
Annuities	**72%**	29%
Cash and cash equivalents	**1%**	-
	100%	100%

Accrued benefit obligations	**2017**		2016	
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Beginning of year	**$ 148.0**	**$ 83.6**	$ 135.9	$ 74.9
Current service cost	**2.9**	**2.1**	2.8	1.9
Settlement adjustment	**-**	**(0.5)**	-	-
Interest cost	**5.7**	**3.2**	5.5	3.0
Employee contributions	**0.1**	**-**	0.1	-
Benefit payments	**(4.7)**	**(2.7)**	(4.7)	(2.0)
Actuarial loss (gain)	**6.8**	**(30.3)**	8.4	5.5
Other	**-**	**(0.5)**	-	0.3
End of year	**$ 158.8**	**$ 54.9**	$ 148.0	$ 83.6

Of the defined benefit pension plan obligation of $158.8 million (December 31, 2016 - $148.0 million), $143.3 million (December 31, 2016 - $132.8 million) relates to plans that are wholly or partly funded and $15.5 million (December 31, 2016 - $15.2 million) relates to plans that are wholly unfunded, with letters of credit securing $2.5 million (December 31, 2016 - $1.6 million) of the unfunded liability.

The total obligation for the non-pension post-retirement benefit plans of $54.9 million (December 31, 2016 - $83.6 million) is unfunded.

Annuity contracts

In 2017, the Company purchased $37.3 million (December 31, 2016 - $33.7 million) of buy-in annuities through its defined benefit pension plans, increasing total annuities purchased to $77.1 million (December 31, 2016 - $39.8 million). Future cash flows from the annuities will match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations. Transaction costs of $1.6 million (December 31, 2016 - $3.6 million) related to the purchase were recognized in other comprehensive income (loss), principally reflecting the difference in the annuity rate compared to the discount rate used to value the obligations on a going concern basis.

Voluntary Retiree Buyout Program

In October 2017, certain non-pension post-retirement benefit plan members of the Company were given an offer to receive lump-sum payment in exchange for settlement of their future non-pension post-retirement benefit obligations under the Voluntary Retiree Buyout Program ("the Program"). Acceptance of the offer constitutes an irrevocable election to terminate future benefit obligations by plan members, and as such, settlement was recorded at the time of election by members. The deadline for elections made under the Program was October 31, 2017, and the resulting payments were made from November 2017 through January 2018. Under the program, $1.3 million of non-pension post-retirement benefit obligations were settled and derecognized in 2017, resulting in a settlement adjustment of $0.5 million, which was included in operating income. For the year ended December 31, 2017, $0.5 million was paid out under the Program, with an additional $0.3 million paid in January 2018.

Medical Services Plan changes

On November 2, 2017, the Legislative Assembly of British Columbia enacted the *Budget Measures Implementation Act, 2017,* which included a 50% reduction in Medical Services Plan ("MSP") premiums effective January 1, 2018. This change in legislation was recognized in actuarial financial assumptions in 2017, and resulted in a $28.5 million pre-tax reduction of the non-pension post-retirement benefit obligation and a corresponding gain recognized through other comprehensive income (loss).

In addition, in measuring the accrued benefit obligation at December 31, 2017, the MSP growth trend rate actuarial financial assumption was reduced from 4.5% to 2.0% resulting in an additional $9.3 million pre-tax gain recognized through other comprehensive income (loss) in 2017.

Reconciliation of funded status of defined benefit plans to amounts recorded in the financial statements

(millions of Canadian dollars)	**December 31, 2017** Defined Benefit Pension Plans	**December 31, 2017** Other Benefit Plans	December 31, 2016 Defined Benefit Pension Plans	December 31, 2016 Other Benefit Plans
Fair market value of plan assets	**$ 130.1**	**$ -**	$ 123.9	$ -
Accrued benefit obligations	**(158.8)**	**(54.9)**	(148.0)	(83.6)
Funded status of plans – deficit	**$ (28.7)**	**$ (54.9)**	$ (24.1)	$ (83.6)
Other pension plans	**(1.6)**	**-**	(1.4)	-
Total accrued benefit liability, net	**$ (30.3)**	**$ (54.9)**	$ (25.5)	$ (83.6)

Components of pension cost

The following table shows the before tax impact on net income and other comprehensive income (loss) of the Company's defined benefit pension and other non-pension post-retirement benefit plans:

(millions of Canadian dollars)	**2017** Defined Benefit Pension Plans	**2017** Other Benefit Plans	2016 Defined Benefit Pension Plans	2016 Other Benefit Plans
Recognized in net income				
Current service cost	**$ 2.9**	**$ 2.1**	$ 2.8	$ 1.9
Settlement adjustment	**-**	**(0.5)**	-	-
Administration expense	**-**	**-**	0.1	-
Interest cost	**0.9**	**3.2**	0.6	3.0
Other	**-**	**(0.2)**	-	0.3
Total charge included in net income	**$ 3.8**	**$ 4.6**	$ 3.5	$ 5.2
Recognized in other comprehensive income (loss)				
Actuarial loss (gain) – experience	**$ (3.3)**	**$ (0.1)**	$ 4.6	$ (0.1)
Actuarial loss (gain) – financial assumptions	**10.1**	**(30.2)**	3.8	5.6
Return on plan assets less (greater) than discount rate	**(1.8)**	**-**	1.6	-
Administrative costs greater than expected	**0.1**	**-**	-	-
Total charge (credit) included in other comprehensive income (loss)	**$ 5.1**	**$ (30.3)**	$ 10.0	$ 5.5

Significant assumptions

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

	December 31, 2017 Defined Benefit Pension Plans	**December 31, 2017** Other Benefit Plans	December 31, 2016 Defined Benefit Pension Plans	December 31, 2016 Other Benefit Plans
Discount rate	**3.4%**	**3.4%**	3.9%	3.9%
Rate of compensation increases	**3.0%**	**n/a**	3.0%	n/a
Initial medical cost trend rate	**n/a**	**6.5%**	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	2022

In addition to the significant assumptions listed in the table above, the average life expectancy of a 65 year old at December 31, 2017 is between 21.0 years and 24.1 years (December 31, 2016 - 20.9 years and 24.1 years). As at December 31, 2017, the weighted average duration of the defined benefit plan obligation, which reflects the average age of the plan members, is 12.3 years (December 31, 2016 - 12.1 years). The weighted average duration of the other benefit plans is 14.2 years (December 31, 2016 - 14.6 years).

Sensitivity analysis

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, taking into account the hedging impact of plan annuity assets, for 2017:

(millions of Canadian dollars)	1% Increase	1% Decrease
Defined benefit pension plan liabilities, net of annuity assets		
Discount rate	$ (10.7)	$ 13.2
Other benefit plan liabilities		
Discount rate	$ (7.9)	$ 10.0
Initial medical cost trend rate	$ 7.5	$ (6.2)

When taking into account the impact of hedging, 45% (December 31, 2016 - 24%) of the change to the defined benefit pension plans is fully hedged against changes in discount rates and longevity risk (potential increases in life expectancy of plan members) through buy-in annuities, and a further 17% (December 31, 2016 - 46%) is partially hedged through the plan's investment in debt securities.

As at December 31, 2017, CPPI estimates that it will make contribution payments of $5.2 million to its defined benefit pension plans in 2018 based on the last actuarial valuation for funding purposes.

Defined contribution and other plans

The total expense recognized in 2017 for CPPI's defined contribution plans was $2.5 million (December 31, 2016 - $2.3 million).

CPPI contributes to a pulp industry pension plan providing pension benefits. This plan is accounted for as a defined contribution plan. Contributions to this plan, not included in the expense for the defined contribution plan above, amounted to $7.3 million in 2017 (December 31, 2016 - $7.2 million).

11. Asset Retirement Obligations

The following table provides a reconciliation of the asset retirement obligations as at December 31, 2017 and December 31, 2016:

(millions of Canadian dollars)	**2017**	2016
Asset retirement obligations at beginning of year	**$ 5.4**	$ 5.5
Accretion expense	**0.1**	0.1
Changes in estimates	**-**	(0.2)
Asset retirement obligations at end of year	**$ 5.5**	$ 5.4

CPPI's asset retirement obligations represent estimated undiscounted future payments of $9.3 million to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur at periods ranging from 5 to 34 years and have been discounted at risk-free rates ranging from 1.9% to 2.3% (December 31, 2016 - 1.3% to 2.3%).

CPPI has certain assets that have indeterminable retirement dates and, therefore, there is an indeterminate settlement date for the related asset retirement obligations. As a result, no asset retirement obligations are recorded for these assets. These assets include wastewater and effluent ponds that will have to be drained once the related operating facility is closed and storage sites for which removal of chemicals, fuels and other related materials will be required once the related operating facility is closed. When the retirement dates of these assets become determinable and an estimate can be made, an asset retirement obligation will be recorded.

It is possible that changes in future conditions could require a material change in the recognized amount of the asset retirement obligations. The asset retirement obligations balance is included in other long-term provisions on the balance sheet.

12. Share Capital

Authorized

Unlimited number of common shares, no par value.

Issued and fully paid

	2017		2016	
(millions of Canadian dollars, except number of shares)	**Number of Shares**	**Amount**	Number of Shares	Amount
Common shares at beginning of year	**66,699,368**	**$ 491.6**	68,951,872	$ 508.2
Common shares purchased	**(1,448,109)**	**(10.7)**	(2,252,504)	(16.6)
Common shares at end of year[4]	**65,251,259**	**$ 480.9**	66,699,368	$ 491.6

[4]Based on trade date.

The holders of common shares are entitled to vote at all meetings of shareholders of the Company and are entitled to receive dividends when declared.

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. The weighted average number of common shares outstanding for 2017 is 65,887,110 (December 31, 2016 - 67,519,888), and reflects common shares purchased under the Company's normal course issuer bid.

Normal course issuer bid

On March 7, 2017, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,332,038 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2017. The renewed normal course issuer bid is set to expire on March 6, 2018. In 2017, CPPI purchased 1,448,109 common shares for $17.8 million (an average price of $12.29 per common share), of which $10.7 million was charged to share capital and $7.1 million was charged to retained earnings. Cash payments for share purchases totaled $17.7 million during the year. As a result of the share purchases in 2017, Canfor's interest in CPPI increased from 53.6% at December 31, 2016 to 54.8% at December 31, 2017.

As at February 22, 2018, based on trade date, there were 65,250,759 common shares of the Company outstanding, as a result of share purchases subsequent to year end, and Canfor's ownership interest in CPPI remained 54.8%.

In 2016, under a previous normal course issuer bid, the Company purchased 2,252,504 common shares for $24.4 million (an average price of $10.83 per common share), of which $16.6 million was charged to share capital and $7.8 million was charged to retained earnings. Cash payments for share purchases totaled $24.7 million during the 2016 year.

13. Finance Expense, Net

(millions of Canadian dollars)	**2017**	2016
Interest expense on borrowings	**$ (3.7)**	$ (3.0)
Interest expense on retirement benefit obligations, net	**(4.1)**	(3.6)
Interest income	**0.7**	0.2
Other	**(0.1)**	(0.2)
Finance expense, net	**$ (7.2)**	$ (6.6)

14. Income Taxes

The components of income tax expense are as follows:

(millions of Canadian dollars)	**2017**	2016
Current	**$ (39.3)**	$ (25.9)
Deferred	**0.5**	2.5
Income tax expense	**$ (38.8)**	$ (23.4)

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

(millions of Canadian dollars)	**2017**	2016
Income tax expense at statutory rate of 26.0%	**$ (36.6)**	$ (21.1)
Add (deduct):		
Permanent difference from capital gains and other non-deductible items	**(0.1)**	(1.8)
Entities with different income tax rates and other tax adjustments	**0.7**	(0.5)
Change in substantively enacted tax legislation	**(2.8)**	-
Income tax expense	**$ (38.8)**	$ (23.4)

In 2017, the Provincial Government of British Columbia passed legislation increasing the provincial corporate tax rate from 11% to 12% effective January 1, 2018. A $2.8 million increase to income tax expense was recorded in net income in 2017 to record the impact on deferred taxes, with an additional $0.3 million being recorded in other comprehensive income (loss) as an income tax recovery on defined benefit plan actuarial losses.

In addition, a tax expense of $6.6 million, before the tax rate adjustment, in relation to actuarial gains on the defined benefit plans (December 31, 2016 - recovery of $4.0 million on actuarial losses) was recorded in other comprehensive income (loss) for the year ended December 31, 2017.

The tax effects of the significant components of temporary differences that give rise to deferred income tax assets and liabilities are as follows:

(millions of Canadian dollars)	**As at December 31, 2017**	As at December 31, 2016
Deferred income tax assets		
Retirement benefit obligations	**22.6**	28.0
Other	**1.9**	2.1
	$ 24.5	$ 30.1
Deferred income tax liabilities		
Depreciable capital assets	**$ (91.9)**	$ (91.2)
Other	**(0.2)**	(0.6)
	(92.1)	(91.8)
Total deferred income taxes, net	**$ (67.6)**	$ (61.7)

15. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)	**2017**	2016
Accounts receivable	**$ (20.5)**	$ 24.2
Inventories	**0.6**	(2.9)
Prepaid expenses	**0.9**	2.5
Accounts payable and accrued liabilities	**12.6**	(4.8)
Net decrease (increase) in non-cash working capital	**$ (6.4)**	$ 19.0

16. Related Party Transactions

CPPI 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.

In 2017, the Company depended on Canfor to provide approximately 62% (December 31, 2016 - 63%) 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 current pricing under one of the Company's Fibre Supply Agreements with Canfor expired on September 1, 2016. The Company and Canfor agreed to extend the chip pricing formula under this agreement for one year, with the opportunity to extend for one additional year if both parties agree. Both parties have since agreed to an extension of the expiry date to September 1, 2018.

The Company purchased wood chips, logs and hog fuel from Canfor sawmills in the amount of $175.3 million in 2017 (December 31, 2016 - $147.8 million).

Canfor provides certain business and administrative services to CPPI under a services agreement. The total amount charged for the services provided by Canfor in 2017 was $12.5 million (December 31, 2016 - $12.2 million). These amounts are included in manufacturing and product costs and selling and administration costs.

CPPI provides certain business and administrative services to Canfor under an incidental services agreement. The total amount charged for the services provided to Canfor in 2017 was $3.8 million (December 31, 2016 - $3.5 million). These amounts are included as cost recoveries in manufacturing and product costs and selling and administration costs.

At December 31, 2017, an outstanding balance of $13.1 million (December 31, 2016 - $10.3 million) was due to Canfor.

The Jim Pattison Group is Canfor's largest shareholder. During 2017, CPPI sold paper to subsidiaries owned by The Jim Pattison Group totalling $3.5 million (December 31, 2016 - $4.3 million). CPPI also made purchases from subsidiaries owned by The Jim Pattison Group totalling $0.3 million (December 31, 2016 - $0.3 million). No amounts related to these sales or purchases were outstanding as at December 31, 2017 or December 31, 2016.

During 2017, the Company also made contributions to certain post-employment benefit plans for the benefit of CPPI employees and provided services to its joint venture with Licella Fibre Fuel Pty Ltd. See Note 10, Employee Future Benefits, and Note 21, Licella Pulp Joint Venture, for further details.

Key management personnel

Key management includes members of the Board of Directors and the senior executive management team. The compensation expense for key management for services is as follows:

(millions of Canadian dollars)		**2017**		2016
Short-term benefits	**$**	**3.4**	$	3.0
Post-employment benefits		**0.2**		0.2
Termination benefits		**-**		0.1
	$	**3.6**	$	3.3

Short-term benefits for members of the Board of Directors include an annual retainer as well as attendance fees.

17. Segment Information

The Company has two reportable segments, pulp and paper, which operate as separate business units and represent separate product lines. The following summary describes the operations of each of the Company's reportable segments:

- *Pulp* – Includes purchase of residual fibre, and production and sale of pulp products, including NBSK pulp and BCTMP as well as energy revenues; and
- *Paper* – Includes production and sale of paper products, including bleached, unbleached, and coloured kraft paper.

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.

Information regarding the operations of each reportable segment is included in the following table. The accounting policies of the reportable segments are described in Note 3.

The Company's interest-bearing liabilities are not considered to be segment liabilities, but rather, are managed centrally by the treasury function. Other liabilities are not split by segment for the purposes of allocating resources and assessing performance.

(millions of Canadian dollars)		Pulp		Paper		Unallocated		Elimination Adjustment		Total
Year ended December 31, 2017										
Sales to external customers	**$**	**1,024.5**	**$**	**173.0**	**$**	**0.4**	**$**	**-**	**$**	**1,197.9**
Sales to other segments		**92.0**		**-**		-		**(92.0)**		**-**
Operating income (loss)		**140.5**		**26.0**		**(11.9)**		**-**		**154.6**
Amortization		**70.4**		**3.9**		**0.1**		**-**		**74.4**
Capital expenditures[5]		**81.3**		**1.8**		-		**-**		**83.1**
Identifiable assets		**751.3**		**55.2**		**85.7**		**-**		**892.2**
Year ended December 31, 2016										
Sales to external customers	$	924.2	$	176.1	$	1.6	$	-	$	1,101.9
Sales to other segments		82.8		-		-		(82.8)		-
Operating income (loss)		79.6		29.7		(11.1)		-		98.2
Amortization		69.9		3.8		0.1		-		73.8
Capital expenditures[5]		60.9		1.7		1.4		-		64.0
Identifiable assets		719.9		55.6		61.6		-		837.1

[5]Capital expenditures represent cash paid for capital assets during the periods and include capital expenditures that were partially financed by government grants.

Geographic information

CPPI's products are marketed worldwide, with sales made to customers in a number of different countries. The following table presents revenue based on the geographical location of CPPI's customers:

(millions of Canadian dollars)		**2017**		2016
Sales by location of customer				
Canada	**$**	**78.3**	$	77.4
Asia		**710.0**		615.9
United States		**288.8**		279.8
Europe		**49.1**		59.4
Other		**71.7**		69.4
	$	**1,197.9**	$	1,101.9

18. Commitments

At the end of the year, CPPI has contractual commitments for the construction of capital assets for $12.2 million (December 31, 2016 - $1.6 million). These commitments are expected to be settled over the following year.

In addition, CPPI has committed to operating leases for property, plant and equipment with future minimum lease payments under these operating leases as follows:

(millions of Canadian dollars)		**As at December 31, 2017**		As at December 31, 2016
Within one year	**$**	**0.5**	$	0.4
Between one and five years		**0.7**		0.6
Total	**$**	**1.2**	$	1.0

During the year ended December 31, 2017, $1.9 million (December 31, 2016 - $1.7 million) was recognized as an expense for operating leases.

Energy Agreements

The Company has entered into 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, 2017, CPPI has $6.7 million of standby letters of credit (December 31, 2016 - $7.7 million) under these agreements, and has no repayment obligations under the terms of any of these agreements.

19. Financial Risk and Capital Management

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 Price Risk Management Controls Policy. The policy sets out the responsibilities, reporting and counterparty 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.

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, or redemption date, of three months or less. The cash and cash equivalents balance at December 31, 2017 is $76.7 million (December 31, 2016 - $51.9 million).

CPPI utilizes credit insurance to manage the risk associated with trade receivables. As at December 31, 2017, approximately 76% (December 31, 2016 - 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, 2017 is $101.7 million, before an allowance for doubtful accounts of $0.2 million (December 31, 2016 - $76.9 million and $1.0 million, respectively). At December 31, 2017, approximately 99% (December 31, 2016 - 99%) of the trade accounts receivable balance are within CPPI's established credit terms.

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, 2017, and December 31, 2016, CPPI has no amounts drawn on its operating loan. At December 31, 2017 CPPI had accounts payable and accrued liabilities of $161.5 million (December 31, 2016 - $125.4 million), all of which are due within twelve months of the balance sheet date.

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. At December 31, 2017 and December 31, 2016, CPPI had no fixed interest rate swaps outstanding.

(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.

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax loss (gain) of approximately $1.2 million in relation to working capital balances denominated in US dollars at year end (including cash, accounts receivable and accounts payable).

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.

CPPI had no foreign exchange derivatives outstanding at December 31, 2017 and December 31, 2016.

(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.

From time to time, CPPI enters into futures contracts on commodity exchanges for pulp. Under the Company's Price Risk Management Controls Policy, up to 1% of pulp sales may be sold in this way.

CPPI had no pulp futures contracts outstanding at December 31, 2017 and December 31, 2016.

(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 Western Texas Intermediate ("WTI") oil contracts to hedge its exposure.

At December 31, 2017 and December 31, 2016, the Company had no WTI oil collars outstanding.

Capital management

CPPI's objectives when managing capital are to maintain a strong balance sheet and a globally competitive cost structure that ensures adequate liquidity to maintain and develop the business through the commodity price cycle.

CPPI's capital is comprised of net debt and shareholders' equity:

(millions of Canadian dollars)		**As at December 31, 2017**		As at December 31, 2016
Total debt (including operating loans)	**$**	**-**	$	50.0
Less: Cash and cash equivalents		**76.7**		51.9
Net cash	**$**	**(76.7)**	$	(1.9)
Total equity		**571.4**		484.7
	$	**494.7**	$	482.8

The Company manages its capital structure through rigorous planning, budgeting and forecasting processes, and ongoing management of operations, investments and capital expenditures. In 2017, to meet CPPI's operating, growth and return on invested capital objectives, the Company's management of capital comprised share purchases and dividends, investment in the Company's operations, development of energy-related assets, and cost reduction initiatives. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

20. 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.

Derivative instruments are measured at fair value. IFRS 13, *Fair Value Measurement,* requires classification of these items 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.

At times, the Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, energy costs and interest rates. As at December 31, 2017 and December 31, 2016, the Company had no derivative financial instruments outstanding.

21. 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 next generation biofuels and biochemicals. Licella is a subsidiary of Ignite Energy Resources Ltd. ("IER") an Australian energy technology development company.

Under IFRS 11, *Joint Arrangements*, the joint venture is classified as a joint operation and CPPI will recognize its assets, liabilities and transactions, including its share of those incurred jointly, in its consolidated financial statements. For the year ended December 31, 2017, the Company's share of the joint venture's expenses was $1.1 million (December 31, 2016 - $0.6 million) which have been recognized in manufacturing and product costs. The Company is required to contribute the first $20.0 million of any funding requirements, including cash and non-cash contributions, to the joint venture, of which $1.7 million has been contributed as at December 31, 2017.

In conjunction with the joint venture agreement and CPPI's commitment to innovation and the development of potentially transforming technology, CPPI provided a convertible credit facility to IER, the parent company of Licella, which matures on June 21, 2019. The advances on this credit facility are convertible, at CPPI's option, into common shares of IER.

With regards to the convertible credit facility, during 2016, CPPI advanced $7.0 million to Licella and exercised its option to convert $3.5 million of the amount advanced into common shares of IER. Due to the inherent nature of this type of innovation and technology development, CPPI considers these advances to be substantially research and development in nature. As a result, in 2016, CPPI recognized losses of $7.0 million in other income (expense). This reflects the Company's consideration of the intrinsic risk associated with these advances. No advances were made by CPPI in 2017.

22. Contingencies

In the ordinary course of its business activities, the Company may be subject to, or enter into, legal actions and claims with customers, unions, suppliers or others. During 2017, the Company settled an outstanding claim with one of its suppliers and recognized a recovery of $2.8 million in manufacturing and products costs.

In circumstances where the Company is not able to determine the outcome of a legal action and claim with certainty, no amount is recognized or accrued in the consolidated financial statements. Although there can be no assurance as to the disposition of a legal action and claim, it is the opinion of the Company's management, based upon the information available at this time, that the expected outcome of a legal action and claim, individually or in aggregate, is unlikely to have a material adverse effect on the operating results and financial condition of the Company as a whole.

23. Subsequent Event

On February 22, 2018, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on March 14, 2018, to shareholders of record on March 7, 2018.