CANFOR PULP PRODUCTS INC.

2017

MANAGEMENT'S DISCUSSION & ANALYSIS

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This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the year ended December 31, 2017 relative to the year ended December 31, 2016, and the financial position of the Company at December 31, 2017. It should be read in conjunction with CPPI's Annual Information Form and its audited consolidated financial statements and accompanying notes for the years ended December 31, 2017 and 2016 (available at www.canfor.com). The financial information contained in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at February 22, 2018.

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.

COMPANY OVERVIEW

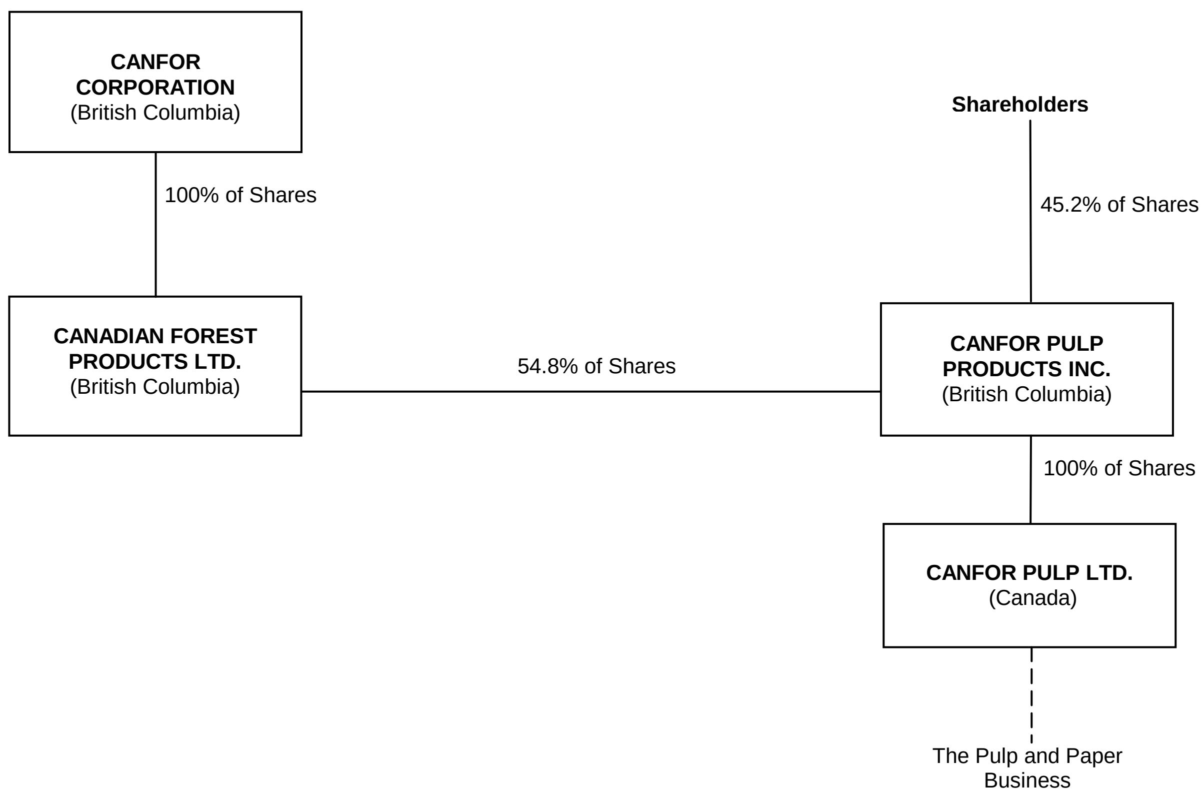
CPPI is a company incorporated and domiciled in Canada and listed on The Toronto Stock Exchange. The consolidated financial statements of the Company as at and for the year ended December 31, 2017 comprise the Company and its subsidiary entities. The Company's operations consist of two Northern Bleached Softwood Kraft ("NBSK") pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia; a Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill located in Taylor, British Columbia and a marketing group based in Vancouver, British Columbia.

At December 31, 2017, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI, an increase of 1.2% from December 31, 2016 as a result of CPPI's share purchases in 2017 under a Normal Course Issuer Bid. Further discussion of the Normal Course Issuer Bid is provided in the "Liquidity and Financial Requirements" section of this document.

CPPI employs 1,279 people in its wholly owned subsidiaries and jointly owned operations as at December 31, 2017.

The following chart illustrates, on a simplified basis, the ownership structure of CPPI (collectively the Company) as at December 31, 2017.

Simplified Ownership Structure



Pulp

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

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

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

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

The Company also owns and operates the Taylor pulp mill, which it purchased from Canfor in early 2015. This BCTMP facility has an annual production capacity of 220,000 tonnes, and supplies pulp markets in North America and Asia.

Paper

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

Business Strategy

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

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

OVERVIEW OF 2017

2017 was an excellent year for Canfor Pulp, with operating income of $154.6 million, the second highest in history, combined with record high annual sales dollars at $1.2 billion, and a return on invested capital of 23%.

Global pulp market conditions were relatively stable for the first half of 2017, but improved considerably in the latter part of the year, mostly as a result of a decision by the Chinese government to restrict recovered paper imports as well as various unforeseen global pulp supply disruptions. NBSK pulp list prices to China averaged US$712[1] per tonne for the year, US$113 per tonne higher than in 2016, and ended the 2017 year at a near-record high price of US$890 per tonne. Prices to other regions saw more modest year-over-year gains. The appreciation of US-dollar prices across all regions significantly outweighed the effects of a modest strengthening of the Canadian dollar and increased discounts in North American markets during the year.

Operating results for the pulp segment were $140.5 million, up $60.9 million from the previous year, as the Company benefited from the improved market conditions. The increased average NBSK pulp unit sales realizations more than offset market-related increases in fibre costs, and higher chemical and energy costs. Favourable BCTMP pricing throughout 2017 enabled the Company's Taylor pulp mill to deliver its best operating results since its acquisition in January 2015. During 2017, the Company enhanced labour stability for its operations with ratification of new four-year collective labour agreements with its unions.

[1] Resource Information Systems, Inc.

The Company's energy business continued to increase its power generation in 2017 and remains focused on both expanding its power generating capability and improving its energy efficiency. In mid-2017, the Company announced the installation of a new condensing turbo-generator at its Northwood NBSK pulp mill and a major upgrade of the refining line at the Taylor BCTMP mill at a combined cost of $105 million. These two projects will yield a significant improvement in overall mill energy efficiency and will result in a material reduction in total fuel consumption. As at December 31, 2017, both projects are progressing as planned.

The Company's paper business had a solid year in 2017, delivering a stable operational performance consistent with prior years, with improved US-dollar kraft paper prices mostly offsetting the impact of the stronger Canadian dollar and higher slush pulp prices.

During 2017, the Company repaid its $50.0 million floating interest rate term debt, more than two-years in advance of its maturity date, and continued to repurchase shares under its Normal Course Issuer Bid, repurchasing just over 1.4 million common shares, or approximately 2.2% of the Company's share capital over the year. During 2017, the Company also continued its quarterly dividends of $0.0625 per common share, returning a total of $16.5 million to shareholders in the year. The Company ended the 2017 year with cash of $76.7 million.

A review of the more significant developments and results by operating segment in 2017 follows.

Markets and Pricing

(i) Pulp – Better than anticipated global pulp markets contribute to positive pricing momentum in second half of 2017

Global pulp market conditions were better than anticipated in 2017, particularly in the second half of the year. Against a backdrop of solid global demand and various unforeseen global pulp supply disruptions, the Chinese government's decision to restrict imports of recycled mixed paper led to domestic buyers increasing their demand for virgin pulp. As a result of this incremental demand, benchmark NBSK pulp list prices to China climbed US$225 per tonne between August and December to reach a six-year high at the end of 2017. For the 2017 year as a whole, the China list price averaged US$712 per tonne, up US$113 per tonne, or 19%, from 2016; transaction prices to North America and Europe saw more modest gains.

Overall, global shipments of bleached softwood kraft pulp saw modest increases in 2017 compared to 2016. Global softwood pulp producer inventories increased in the first quarter of 2017 with limited industry maintenance downtime, then fell through the spring maintenance period in the second quarter of 2017, and remained within the balanced range of 27-30 days through the second half of 2017.

The following charts show the NBSK pulp list price movements in 2017, before taking account of customer discounts and rebates (Chart 1), and the global pulp inventory levels (Chart 2).

Chart 1

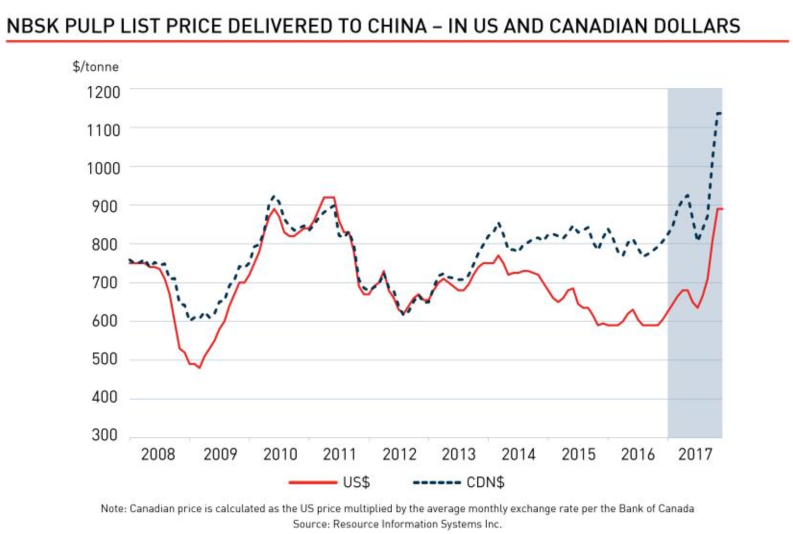
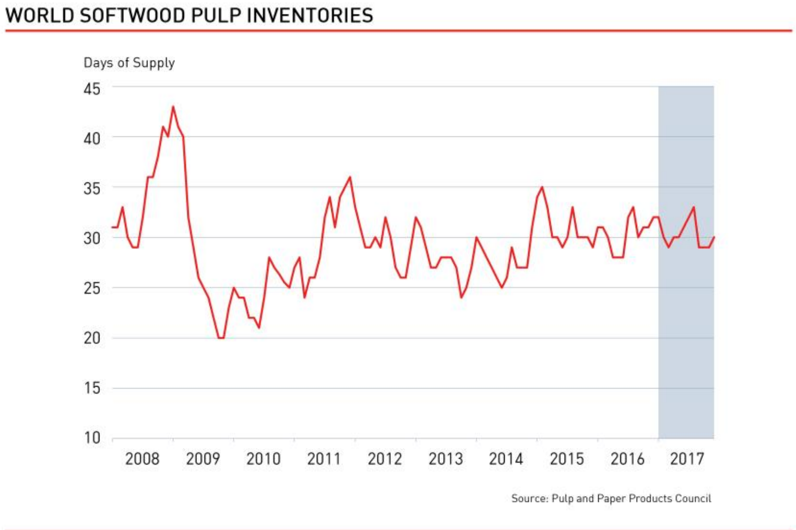


Chart 2



CPPI's sales network represents and co-markets UPM-Kymmene ("UPM") pulp products in North America, Japan and Korea, while UPM's pulp sales network represents and co-markets CPPI's products in Europe and China, as part of a strategic sales and marketing cooperation agreement. This arrangement continues to work well for both parties, allowing both CPPI and UPM to sell a broader offering of pulp products and enhanced technical service to customers.

(ii) Paper – Kraft paper markets remain strong in 2017

Bleached kraft paper markets were healthy throughout 2017. Positive pricing momentum experienced in the first half of the year, continued into the latter part of the year. The higher US-dollar bleached kraft paper prices were partly offset by the stronger Canadian dollar in 2017.

Capital and Operations Review

Maintained steady operational performance and strong balance sheet in 2017; Continued ongoing investment in asset base and focus on high return energy projects

Total pulp and paper production in 2017 was largely in line with 2016. During 2017, the Company completed scheduled maintenance outages at its Northwood and Intercontinental NBSK pulp mills, as well as at its Taylor BCTMP mill (in the case of Taylor, this included preliminary work associated with the previously announced major energy project at that mill). During the fourth quarter of 2017, an unscheduled outage and subsequent repairs at the Northwood pulp mill, related to a tube leak in the facility's number five recovery boiler, resulted in a reduction in overall pulp production of approximately 11,000 tonnes.

Capital spending in 2017 totalled $83.1 million, and included the completion of several smaller high-return discretionary projects, as well as the commencement of the Taylor and Northwood pulp mill energy projects. Heading into 2018, both projects are progressing as planned, with the Taylor project currently estimated to commence ramp up in the latter part of 2018 and the Northwood project remaining on track to be commissioned in early 2019.

The Company maintained its strong balance sheet position in 2017, finishing the year with the early repayment of its $50.0 million floating interest rate term debt and a solid cash position. The Company's cash from operations throughout 2017 allowed the Company to continue to distribute earnings back to its shareholders, with dividend payments totaling $16.5 million, or the equivalent of $0.0625 per common share in each quarter, and to continue share repurchase activity under its Normal Course Issuer Bid, buying back 1,448,109 common shares, at an average price of $12.29 per common share, for a total of $17.8 million.

OVERVIEW OF CONSOLIDATED RESULTS – 2017 COMPARED TO 2016

Selected Financial Information and Statistics

(millions of Canadian dollars, except for per share amounts)	2017	2016
Sales	**$ 1,197.9**	$ 1,101.9
Operating income before amortization[2]	**$ 229.0**	$ 172.0
Operating income	**$ 154.6**	$ 98.2
Net income	**$ 102.1**	$ 57.8
Net income per share, basic and diluted	**$ 1.55**	$ 0.86
ROIC – Consolidated[3]	**22.8%**	13.0%
Average exchange rate (US$ per C$1.00)[4]	**$ 0.770**	$ 0.755

[2] Amortization includes amortization of certain capitalized major maintenance costs.
[3] Consolidated Return on Invested Capital ("ROIC") is equal to operating income/loss, plus realized gains/losses on derivatives and other income/expense, divided by the average invested capital during the year. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital.
[4] Source – Bank of Canada (monthly average rate for the period).

(millions of Canadian dollars)	2017	2016
Operating income (loss) by segment:		
Pulp	**$ 140.5**	$ 79.6
Paper	**$ 26.0**	$ 29.7
Unallocated	**$ (11.9)**	$ (11.1)
Total operating income	**$ 154.6**	$ 98.2
Add: Amortization[5]	**$ 74.4**	$ 73.8
Total operating income before amortization[5]	**$ 229.0**	$ 172.0
Add (deduct):		
Working capital movements	**$ (6.4)**	$ 19.0
Defined benefit plan contributions, net	**$ (7.0)**	$ (8.3)
Income taxes paid, net	**$ (19.1)**	$ (33.6)
Other operating cash flows, net	**$ (1.8)**	$ 0.9
Cash from operating activities	**$ 194.7**	$ 150.0
Add (deduct):		
Repayment of long-term debt	**$ (50.0)**	$ -
Dividends paid	**$ (16.5)**	$ (16.9)
Finance expenses paid	**$ (3.3)**	$ (3.2)
Capital additions, net	**$ (83.1)**	$ (64.0)
Advances to Licella Fibre Fuels Pty Ltd. ("Licella")	**$ -**	$ (7.0)
Share purchases	**$ (17.7)**	$ (24.7)
Other, net	**$ 0.7**	$ 0.2
Change in cash / operating loans	**$ 24.8**	$ 34.4

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

Analysis of Specific Items Affecting Comparability of Net Income

After-tax impact

(millions of Canadian dollars, except for per share amounts)		2017		2016
Net income, as reported	**$**	**102.1**	$	57.8
Change in substantively enacted tax legislation	**$**	**2.8**	$	-
Net impact of above items	**$**	**2.8**	$	-
Adjusted net income	**$**	**104.9**	$	57.8
Net income per share (EPS), as reported	**$**	**1.55**	$	0.86
Net impact of above items per share	**$**	**0.04**	$	-
Adjusted net income per share	**$**	**1.59**	$	0.86

The Company recorded net income of $102.1 million, or $1.55 per share, for the year ended December 31, 2017, an increase of $44.3 million, or $0.69 per share, from $57.8 million, or $0.86 per share, reported for the year ended December 31, 2016.

Operating income for 2017 was $154.6 million, the second highest in history, and up $56.4 million from operating income of $98.2 million reported for 2016. These results include record high annual sales dollars at $1.2 billion. The improved results of the pulp segment were principally due to higher US-dollar NBSK pulp and BCTMP list prices, which more than offset the 2% stronger Canadian dollar and increased fibre (market-driven), chemical and energy costs. The paper segment earnings showed a modest decline compared to the previous year, as improved average paper unit sales realizations were more than offset by higher slush pulp prices, due to the higher Canadian dollar NBSK market pulp prices.

A more detailed review of the Company's operational performance and results is provided in "Operating Results by Business Segment – 2017 compared to 2016", which follows this overview of consolidated results.

OPERATING RESULTS BY BUSINESS SEGMENT – 2017 COMPARED TO 2016

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

CPPI's operations include the Pulp and Paper segments.

Pulp

Selected Financial Information and Statistics – Pulp

Summarized results for the Pulp segment for 2017 and 2016 are as follows:

(millions of Canadian dollars, unless otherwise noted)		2017		2016
Sales	**$**	**1,024.5**	$	924.2
Operating income before amortization[6]	**$**	**210.9**	$	149.5
Operating income	**$**	**140.5**	$	79.6
Capital expenditures	**$**	**81.3**	$	60.9
Average NBSK pulp price delivered to China - US$[7]	**$**	**712**	$	599
Average NBSK pulp price delivered to China – Cdn$[7]	**$**	**925**	$	794
Production – pulp (000 mt)		**1,205.0**		1,217.9
Shipments – pulp (000 mt)		**1,216.4**		1,201.5

[6] Amortization includes amortization of certain capitalized major maintenance costs.
[7] Per tonne, NBSK pulp list price delivered to China (as published by Resource Information Systems, Inc); Average NBSK pulp price delivered to China in Cdn$ calculated as average NBSK pulp price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.

Markets

As mentioned above, overall global pulp demand in 2017 was unexpectedly strong, particularly in the second half of the year, driven in part by China and its new regulations restricting the import of recycled mixed paper. Despite the additional capacity that came on-line in 2017, unforeseen global pulp supply disruptions led to less capacity being available for global pulp markets. These factors resulted in significant upward pressure on average pulp list prices most notably in the latter part of the year. For the year as a whole, global shipments of bleached softwood kraft pulp saw modest increases in 2017 compared to 2016, primarily to Asian markets (including China), and North America[8].

At the end of December 2017, World 20[9] producers of bleached softwood pulp inventories were within the balanced range, at 30 days' supply. By comparison, December 2016 inventories were at 32 days' supply. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Sales

The Company's pulp shipments in 2017 were 1,216,400 tonnes, broadly in line with 2016.

As previously mentioned, China US-dollar NBSK pulp list prices averaged US$712 per tonne in 2017, up US$113 per tonne, or 19% compared to 2016. Consequently, average NBSK pulp unit sales realizations saw solid increases year over year, principally reflecting the increase in US-dollar pricing, which more than offset increases in customer discounts, the 2% stronger Canadian dollar and a lag in the timing of shipments (versus orders). Average BCTMP unit sales realizations were notably higher in 2017 compared to the previous year, reflecting strong BCTMP demand and US-dollar pricing throughout most of the 2017 year, partially offset by the stronger Canadian dollar.

In 2017, energy revenue was up compared to the prior year, primarily reflecting higher energy pricing combined with stronger power generation, particularly over the winter months, which more than offset operational challenges at the Company's Northwood NBSK pulp mill in the fourth quarter of 2017.

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

Operations

Pulp production in 2017, at 1,205,000 tonnes, was broadly in line with that produced in 2016, with total pulp production comparable year-over-year after adjusting for scheduled and unplanned maintenance outages. In 2017, the Company completed scheduled outages at its Northwood and Intercontinental NBSK pulp mills, as well as at its Taylor BCTMP mill, which, in part, included preliminary work associated with the previously announced energy project at that mill. During the fourth quarter of 2017, an unscheduled outage and subsequent repairs at the Northwood pulp mill, related to a tube leak in the facility's number five recovery boiler, resulted in a reduction in overall pulp production of approximately 11,000 tonnes.

Pulp unit manufacturing costs modestly increased when compared to 2016, reflecting moderately higher fibre costs, combined with a significant increase in chemical costs and, to a lesser extent, higher energy costs. The increase in fibre costs compared to 2016 reflected higher market prices for delivered sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) combined with a marginal increase in the proportion of higher-cost whole log chips.

Paper

Selected Financial Information and Statistics – Paper

Summarized results for the Paper segment for 2017 and 2016 are as follows:

(millions of Canadian dollars, unless otherwise noted)		**2017**		2016
Sales	**$**	**173.0**	$	176.1
Operating income before amortization[10]	**$**	**29.9**	$	33.5
Operating income	**$**	**26.0**	$	29.7
Capital expenditures	**$**	**1.8**	$	1.7
Production – paper (000 mt)		**138.0**		135.8
Shipments – paper (000 mt)		**139.0**		142.5

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

Markets

As mentioned above, bleached kraft paper markets were healthy throughout 2017. Positive pricing momentum in the first half of the year, continued into the latter part of the year.

Sales

The Company's paper shipments in 2017 at 139,000 tonnes, were broadly in line with 2016. The Company's prime bleached paper shipments represented 88% of prime sales volumes in 2017, up 2% from 2016. Paper unit sales realizations for 2017 were broadly in line with 2016, reflecting the improvement in US-dollar kraft paper prices as well as the proportionately higher prime bleached shipments, offset by the unfavourable impact of the stronger Canadian dollar.

Operations

Paper production in 2017 was 138,000 tonnes, up 2,200 tonnes, or 2%, from 2016, as a slight decline in operating rates was more than offset by the favourable impact on paper production of no scheduled maintenance outages in 2017 (in 2016, scheduled maintenance outages reduced paper production by approximately 5,100 tonnes). Paper unit manufacturing costs were moderately higher compared to 2016, largely reflecting a significant increase in slush pulp costs (linked to higher Canadian dollar NBSK market pulp prices) and, to a lesser extent, higher routine maintenance spend in 2017, offset in part by the favourable impact of increased paper production in the current year.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)		2017		2016
Corporate costs	$	(11.9)	$	(11.1)
Finance expense, net	$	(7.2)	$	(6.6)
Other income (expense), net	$	(6.5)	$	(10.4)

Corporate Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were $11.9 million in 2017, an increase of $0.8 million when compared to the prior year. This variance was primarily attributable to the recognition of carbon offset credits in 2016, with no carbon offset credits sold in 2017.

Finance Expense, Net

Net finance expense for 2017 was $7.2 million, up $0.6 million from 2016. The increase principally reflected higher finance expenses associated with the Company's letters of credit, as well as an increase in employee future benefit net interest costs. These factors were partially offset by interest income earned in 2017.

Other Income (Expense), Net

Other expenses, net of $6.5 million for 2017 principally related to unfavourable foreign exchange movements on US-dollar denominated working capital balances, largely US-dollar denominated cash and accounts receivables. In 2016, other expenses net, included the $7.0 million write-down of research and development related advances to Licella, combined with unfavourable foreign exchange movements on US-dollar denominated working capital balances (see further discussion in the "Licella Pulp Joint Venture" section).

Income Tax Expense

The Company recorded an income tax expense of $38.8 million in 2017 with an overall effective tax rate of 28%.

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
Net income before income taxes	$	140.9	$	81.2
Income tax expense at statutory rate of 26%	$	(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.

Other Comprehensive Income (Loss)

CPPI measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Any actuarial gains or losses which arise are recognized immediately by means of a credit or an expense through Other Comprehensive Income. For 2017, an after-tax gain of $18.9 million was recorded in Other Comprehensive Income, as losses on the Company's defined benefit pension plans were more than offset by gains on other non-pension post-employment benefits. The losses associated with the defined benefit pension plans largely reflected a lower discount rate used to value the net defined benefit obligation, offset in part by favourable actuarial experience adjustments in the pension plans and the return generated on pension plan assets. The gains related to the other non-pension post-employment benefits principally reflected a 50% reduction in Medical Services Plan ("MSP") premiums following a change in legislation in British Columbia, and, to a lesser extent, a reduction in the MSP growth trend rate used to value the obligation, offset in part by a 0.5% lower discount rate.

In 2017, the Company purchased $37.3 million of buy-in annuities through its defined benefit pension plans, increasing total annuities purchased to $77.1 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 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.

When taking into account the impact of hedging, 45% 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% is partially hedged through the plan's investment in debt securities.

In 2016, the after-tax loss of $11.5 million recorded in Other Comprehensive Income largely reflected a decrease in the discount rate used to value the net defined benefit obligation, combined with unfavourable actuarial experience adjustments in the pension plans and a return on pension plan assets less than the discount rate. For more information, see the "Employee Future Benefits" part of the "Critical Accounting Estimates" section later in this report.

SUMMARY OF FINANCIAL POSITION

The following table summarizes CPPI's financial position as at December 31, 2017 and 2016:

(millions of Canadian dollars, except for ratios)	**2017**	2016
Cash and cash equivalents	**$ 76.7**	$ 51.9
Operating working capital	**126.8**	138.9
Net working capital	**203.5**	190.8
Property, plant and equipment and intangible assets	**526.7**	520.4
Other long-term assets	**0.5**	0.5
Net assets	**$ 730.7**	$ 711.7
Long-term debt	**$ -**	$ 50.0
Retirement benefit obligations	**85.2**	109.1
Long-term provisions	**6.5**	6.2
Deferred income taxes, net	**67.6**	61.7
Total equity	**571.4**	484.7
	$ 730.7	$ 711.7
Ratio of current assets to current liabilities	**2.3 : 1**	2.5 : 1
Net debt to total capitalization	**(15.5)%**	(0.4)%

The ratio of current assets to current liabilities at the end of 2017 was 2.3:1, compared to 2.5:1 at the end of 2016, primarily as a result of an increase in accounts payable and accrued liabilities due to timing of spend, offset in part by higher cash and cash equivalent balances. See further discussion in "Changes in Financial Position" section.

The Company's net debt to capitalization was negative 15.5% at December 31, 2017 (December 31, 2016: negative 0.4%) reflecting the Company's zero debt levels and strong cash position at the end of 2017.

CHANGES IN FINANCIAL POSITION

At the end of 2017, CPPI had $76.7 million of cash and cash equivalents.

(millions of Canadian dollars)	2017	2016
Cash generated from (used in)		
Operating activities	**$ 194.7**	$ 150.0
Financing activities	**(87.5)**	(44.8)
Investing activities	**(82.4)**	(70.8)
Increase (decrease) in cash and cash equivalents	**$ 24.8**	$ 34.4

The changes in the components of these cash flows during 2017 are discussed in the following sections.

Operating Activities

For the 2017 year, CPPI generated cash from operating activities of $194.7 million, up $44.7 million from cash generated of $150.0 million in the previous year. The increase in operating cash flows was principally related to higher cash earnings combined with lower tax installment payments in 2017, partially offset by unfavourable movements in non-cash working capital. The increase in non-cash working capital in 2017 related principally to higher accounts receivable balances, primarily due to higher average NBSK and BCTMP pulp unit sales realizations towards the end of year, offset by increased accounts payable and accrued liabilities, due to the timing of spend.

Financing Activities

In 2017, cash used in financing activities of $87.5 million was $42.7 million higher than the $44.8 million used in the prior year. Financing activities in 2017 comprised the early repayment of the Company's $50.0 million floating interest rate term debt, as well as dividend payments totaling $16.5 million, or the equivalent of $0.0625 per common share in each quarter, down $0.4 million from the previous year. In addition, during 2017, the Company continued its share repurchase activity under its Normal Course Issuer Bid, spending a total of $17.7 million on common share repurchases during the year, compared to a total of $24.7 million on common share repurchases in 2016 (see further discussion of the shares purchased under a Normal Course Issuer Bid in the following "Liquidity and Financial Requirements" section). Finance expenses paid during 2017 were broadly in line with the prior year.

Investing Activities

Net cash used for investing activities in 2017 was $82.4 million, compared to $70.8 million used in 2016. Capital expenditures of $83.1 million in 2017 were associated with several capital projects including the previously announced Northwood and Taylor energy projects, as well as maintenance of business and other improvement projects (see further discussion in the "Northwood and Taylor Pulp Mill Energy Projects" section). In 2016, cash used for investing activities also included $7.0 million in advances to Licella, which comprised the aforementioned write-down (see further discussion in the "Licella Pulp Joint Venture" section).

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loan and Term Debt

At December 31, 2017, the Company had a $110.0 million unsecured operating loan facility which was unused, except for $9.2 million reserved for several standby letters of credit, leaving $100.8 million available and undrawn on the operating facility. In 2016, the maturity date of this facility was extended to January 31, 2020. CPPI had a separate facility to cover letters of credit, which expired on June 30, 2016 and was not extended. Letters of credit covered under the expired facility were transferred to the operating loan facility.

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

Debt Covenants

CPPI has certain financial covenants on its debt obligations that stipulate a maximum debt to total capitalization ratio. The debt to total capitalization is calculated by dividing total debt by shareholders' equity plus total debt.

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

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

Management reviews results and forecasts to monitor the Company's compliance with these covenant requirements. CPPI was in compliance with all its debt covenants for the year ended December 31, 2017, and expects to remain so for the foreseeable future.

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). 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 at 54.8%.

2018 Projected Capital Spending and Debt Repayments

Based on its current outlook, assuming no deterioration in market conditions during the year, the Company anticipates that it will invest approximately $90.0 million in capital projects, which will consist primarily of various improvement projects, including the Northwood and Taylor pulp mill energy projects, outlined below, as well as the implementation of a new ERP software system and other maintenance of business expenditures, including major maintenance spending. CPPI has sufficient liquidity in its cash reserves and operating loans to finance its planned capital expenditures as required during 2018. As at December 31, 2017 the Company has no debt outstanding and as a result no debt due for repayment in 2018.

Northwood and Taylor Pulp Mill Energy Projects

On July 26, 2017, the Company announced plans to undertake capital projects at its Northwood and Taylor pulp mills. The Northwood project will install a new 32 megawatt condensing turbo-generator for an estimated cost of $65.0 million. The Taylor project will upgrade the refining line for an estimated cost of $40.0 million. The Taylor project will be partially funded through BC Hydro's conservation program incentives. These projects will yield a significant improvement in overall mill energy efficiency and will result in a reduction in total fuel consumption. The sustaining benefits of the projects will also include reductions in mill water use, steam use per tonne of pulp and natural gas consumption.

As at December 31, 2017, both projects are progressing as planned. The Taylor project is currently estimated to commence ramp up in the later part of 2018, following an extended scheduled outage to complete tie-in work in the second quarter of 2018. The Northwood project is currently scheduled to be commissioned in 2019.

Derivative Financial Instruments

As at December 31, 2017, the Company had no derivative financial instruments outstanding. From time to time, CPPI:

a. Uses US-dollar derivative financial instruments to partly hedge its exposure to currency risk. The Company did not enter into any US-dollar collars during 2017.

b. Uses Western Texas Intermediate ("WTI") oil contracts as proxy to hedge its diesel purchases. The Company did not enter into any oil collars during 2017.

c. Enters into futures contracts on commodity exchanges for pulp. The Company did not enter into any pulp futures contracts during 2017.

d. Uses interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates. The Company did not enter into any interest rate swaps during 2017.

Commitments

The following table summarizes CPPI's financial contractual obligations at December 31, 2017 for each of the next five years and thereafter:

(millions of Canadian dollars)	2018	2019	2020	2021	2022	Thereafter	Total
Operating leases	$ 0.5	$ 0.4	$ 0.2	$ 0.1	$ -	$ -	$ 1.2

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

- The Company has energy agreements with a BC energy company (the "Energy Agreements") for three of the Company's mills. These agreements are for the commitment of electrical load displacement and the sale of incremental power from the Company's pulp and paper mills. These Energy Agreements include incentive grants from the BC energy company for capital investments to increase electrical generation capacity, and also call for performance guarantees to ensure minimum required amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, the Company has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2017 the Company had posted $6.7 million of standby letters of credit under these agreements, and had no repayment obligations under the terms of any of these agreements.
- Contractual commitments totaling $12.2 million, principally related to the construction of capital assets.
- The Company's asset retirement obligations represent estimated undiscounted future payments of $9.3 million to remediate the landfills at the end of their useful lives. Payments relating to landfill closure costs are expected to occur at periods ranging from 5 to 34 years which have been discounted at risk free rates ranging from 1.9% to 2.3%. The estimated discounted value is $5.5 million and the amount is included in Other long-term provisions.
- Obligations to pay pension and other post-employment benefits, for which a net liability for accounting purposes at December 31, 2017 was $85.2 million. As at December 31, 2017, CPPI estimated that it would make contribution payments of $5.2 million to its defined benefit pension plans in 2018 based on the last actuarial valuation for funding purposes.
- Purchase obligations and contractual obligations in the normal course of business. Purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on the Company's requirements in any given year.

TRANSACTIONS WITH RELATED PARTIES

The Company undertakes transactions with various related entities. These transactions are in the normal course of business and are generally on similar terms as those accorded to unrelated third parties, except where noted otherwise.

The current pricing under one of the Company's Fibre Supply Agreements with Canfor expired 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.

In 2017, the Company purchased wood chips, logs and hog fuel from Canfor sawmills in the amount of $175.3 million.

Canfor provides certain business and administrative services to the Company under a services agreement. The total amount charged for the services provided by Canfor in 2017 was $12.5 million.

The Company provides certain business and administrative services to Canfor under an incidental services agreement. The total amount charged for the services provided to Canfor in 2017 was $3.8 million.

At December 31, 2017, an outstanding balance of $13.1 million is 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. CPPI also made purchases from subsidiaries owned by The Jim Pattison Group totalling $0.3 million. No amounts related to these sales or purchases were outstanding as at December 31, 2017.

Additional details on related party transactions are contained in Note 16 to CPPI's 2017 consolidated financial statements.

LICELLA PULP JOINT VENTURE

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

In March 2017, the Canadian Federal Government through its Sustainable Development Technology Canada program announced the funding over several years of approximately $13.2 million, contingent on future spending, to allow the Licella Pulp Joint Venture to further develop and demonstrate a technology that will economically convert biomass into biofuels and biochemicals. During 2017, the Company, together with its joint venture partner, Licella, has actively continued to advance work associated with the feasibility study and risk reduction process for industrializing this biofuel and biochemical technology.

COLLECTIVE AGREEMENTS WITH LABOUR UNIONS

In June 2017, the Company ratified a new four-year collective agreements with Unifor and PPWC (Public and Private Workers of Canada). Both agreements expire on April 30, 2021.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Sales and income (millions of Canadian dollars)								
Sales	**$ 322.9**	**$ 284.9**	**$ 280.9**	**$ 309.2**	$ 257.8	$ 291.6	$ 257.2	$ 295.3
Operating income before amortization[11]	**$ 85.6**	**$ 39.4**	**$ 50.0**	**$ 54.0**	$ 42.1	$ 50.0	$ 22.1	$ 57.8
Operating income	**$ 66.8**	**$ 21.1**	**$ 31.5**	**$ 35.2**	$ 22.9	$ 31.0	$ 5.2	$ 39.1
Net income	**$ 45.2**	**$ 12.6**	**$ 20.2**	**$ 24.1**	$ 10.1	$ 22.4	$ 2.2	$ 23.1
Per common share (Canadian dollars)								
Net income – basic and diluted	**$ 0.69**	**$ 0.19**	**$ 0.31**	**$ 0.36**	$ 0.15	$ 0.34	$ 0.03	$ 0.34
Book value[12]	**$ 8.76**	**$ 7.78**	**$ 7.63**	**$ 7.55**	$ 7.27	$ 7.14	$ 6.88	$ 7.15
Dividends declared	**$ 0.0625**	**$ 0.0625**	**$ 0.0625**	**$ 0.0625**	$ 0.0625	$ 0.0625	$ 0.0625	$ 0.0625
Common Share Repurchases								
Share volume repurchased (000 shares)	**8**	**568**	**608**	**264**	-	-	1,840	413
Shares repurchased (millions of Canadian dollars)	**$ 0.1**	**$ 7.2**	**$ 7.5**	**$ 3.0**	$ -	$ -	$ 19.5	$ 4.9
Statistics								
Pulp shipments (000 mt)	**299.7**	**303.3**	**276.3**	**337.1**	275.4	319.8	287.2	319.1
Paper shipments (000 mt)	**35.8**	**34.0**	**35.5**	**33.7**	33.6	35.5	38.5	34.9
Average exchange rate – US$/Cdn$	**$ 0.786**	**$ 0.798**	**$ 0.744**	**$ 0.756**	$ 0.750	$ 0.766	$ 0.776	$ 0.728
Average NBSK pulp list price delivered to China (US$)	**$ 863**	**$ 670**	**$ 670**	**$ 645**	$ 595	$ 595	$ 617	$ 590

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

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

(millions of Canadian dollars)	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Operating income (loss) by segment:								
Pulp	**$ 62.4**	**$ 19.0**	**$ 28.0**	**$ 31.1**	$ 18.1	$ 26.7	$ 1.8	$ 33.0
Paper	**$ 7.4**	**$ 4.9**	**$ 6.6**	**$ 7.1**	$ 8.1	$ 7.2	$ 5.5	$ 8.9
Unallocated	**$ (3.0)**	**$ (2.8)**	**$ (3.1)**	**$ (3.0)**	$ (3.3)	$ (2.9)	$ (2.1)	$ (2.8)
Total operating income	**$ 66.8**	**$ 21.1**	**$ 31.5**	**$ 35.2**	$ 22.9	$ 31.0	$ 5.2	$ 39.1
Add: Amortization[13]	**$ 18.8**	**$ 18.3**	**$ 18.5**	**$ 18.8**	$ 19.2	$ 19.0	$ 16.9	$ 18.7
Total operating income before amortization[13]	**$ 85.6**	**$ 39.4**	**$ 50.0**	**$ 54.0**	$ 42.1	$ 50.0	$ 22.1	$ 57.8
Add (deduct):								
Working capital movements	**$ (5.2)**	**$ 1.0**	**$ (2.0)**	**$ (0.2)**	$ 3.8	$ (3.9)	$ 31.9	$ (12.8)
Defined benefit pension plan contributions	**$ (2.2)**	**$ (1.6)**	**$ (1.7)**	**$ (1.5)**	$ (2.1)	$ (3.6)	$ (1.4)	$ (1.2)
Income taxes paid, net	**$ (1.5)**	**$ (16.5)**	**$ (0.9)**	**$ (0.2)**	$ (0.8)	$ (18.6)	$ (2.6)	$ (11.6)
Other operating cash flows, net	**$ 1.7**	**$ (1.2)**	**$ (0.9)**	**$ (1.4)**	$ 4.1	$ 2.2	$ (1.5)	$ (3.9)
Cash from operating activities	**$ 78.4**	**$ 21.1**	**$ 44.5**	**$ 50.7**	$ 47.1	$ 26.1	$ 48.5	$ 28.3
Add (deduct):								
Repayment of long-term debt	**$ (50.0)**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -	$ -
Dividends paid	**$ (4.1)**	**$ (4.1)**	**$ (4.1)**	**$ (4.2)**	$ (4.2)	$ (4.1)	$ (4.3)	$ (4.3)
Finance expenses paid	**$ (1.0)**	**$ (0.9)**	**$ (0.7)**	**$ (0.7)**	$ (1.1)	$ (0.8)	$ (0.5)	$ (0.8)
Capital additions, net	**$ (28.1)**	**$ (19.0)**	**$ (19.2)**	**$ (16.8)**	$ (18.3)	$ (14.0)	$ (18.6)	$ (13.1)
Advances to Licella	**$ -**	**$ -**	**$ -**	**$ -**	$ (3.5)	$ -	$ (3.5)	$ -
Share purchases	**$ -**	**$ (7.5)**	**$ (7.4)**	**$ (2.8)**	$ -	$ (0.3)	$ (19.4)	$ (5.0)
Other, net	**$ 0.2**	**$ 0.2**	**$ 0.1**	**$ 0.2**	$ -	$ -	$ -	$ 0.2
Change in cash / operating loans	**$ (4.6)**	**$ (10.2)**	**$ 13.2**	**$ 26.4**	$ 20.0	$ 6.9	$ 2.2	$ 5.3

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

THREE-YEAR COMPARATIVE REVIEW

(millions of Canadian dollars, except per share amounts)	2017	2016	2015
Sales	**$ 1,197.9**	$ 1,101.9	$ 1,174.7
Net income	**$ 102.1**	$ 57.8	$ 106.6
Total assets	**$ 892.2**	$ 837.1	$ 841.3
Term debt	**$ -**	$ 50.0	$ 50.0
Net income per share, basic and diluted	**$ 1.55**	$ 0.86	$ 1.52
Dividends declared per share	**$ 0.250**	$ 0.250	$ 1.375

FOURTH QUARTER RESULTS
Overview

The Company recorded operating income of $66.8 million and net income of $45.2 million for the fourth quarter of 2017, compared to operating income of $21.1 million and net income of $12.6 million for the third quarter of 2017 and operating income of $22.9 million and net income of $10.1 million for the fourth quarter of 2016. Net income per share was $0.69 for the fourth quarter of 2017, compared to $0.19 per share in the third quarter of 2017 and $0.15 per share in the fourth quarter of 2016.

An overview of the results by business segment for the fourth quarter of 2017 compared to the third quarter of 2017 and the fourth quarter of 2016 follows.

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	**Q4 2017**	Q3 2017	Q4 2016
Sales	**$ 277.3**	$ 243.6	$ 215.9
Operating income before amortization[14]	**$ 80.1**	$ 36.3	$ 36.2
Operating income	**$ 62.4**	$ 19.0	$ 18.1
Average NBSK pulp price delivered to China – US$[15]	**$ 863**	$ 670	$ 595
Average NBSK pulp price delivered to China – Cdn$[15]	**$ 1,098**	$ 839	$ 794
Production – pulp (000 mt)	**307.6**	305.1	304.0
Shipments – pulp (000 mt)	**299.7**	303.3	275.4

[14] Amortization includes amortization of certain capitalized major maintenance costs.
[15] Per tonne, NBSK pulp list price delivered to China (as published by Resource Information Systems, Inc.); Average NBSK pulp price delivered to China in Cdn$ calculated as average NBSK pulp price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.

Markets

Global pulp markets experienced a strong surge in demand which commenced late in the third quarter of 2017 and continued through the fourth quarter of 2017. This growth in demand, principally from China, was in part due to China's new regulations restricting the import of recycled mixed paper, combined with impact of various unforeseen global pulp supply disruptions in the second half of 2017. At the end of December 2017, global softwood pulp producer inventory levels were in a balanced range at 30 days of supply[16] (Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range).

Global shipments of bleached softwood pulp increased by 3.0% for 2017 when compared to 2016, driven primarily by increased year-over-year shipments to North America and Asian countries, including China[17].

Sales

The Company's pulp shipments for the fourth quarter of 2017 totalled 299,700 tonnes, broadly in line with the third quarter of 2017 and up 24,300 tonnes, or 9%, from the fourth quarter of 2016. Pulp shipments in the current quarter reflected the benefit of a 14,000 tonne vessel shipment slippage into the beginning of the quarter; however, this was offset by a weather related 14,000 tonne vessel delay at the end of December. Compared to the fourth quarter of 2016, the increase in pulp shipments was mostly attributable to the delayed shipment from September into October 2017, coupled with the drawdown of inventories at the end of the current quarter.

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

The average China US-dollar NBSK pulp list price of US$863 per tonne, as published by RISI, was up US$193 per tonne, or 29%, from the third quarter of 2017, which was the principal reason for a significantly higher average NBSK pulp unit sales realizations quarter over quarter. This was combined to a lesser extent, with the benefit of a 1 cent or 1% weaker Canadian dollar, offset in part by the timing impact of a higher proportion of shipments in the period relating to orders taken in the third quarter of 2017, when prices were lower. Average BCTMP unit sales realizations also experienced a healthy increase when compared to the previous quarter, reflecting improved BCTMP markets combined with the benefit of a 1% weaker Canadian dollar.

Compared to the fourth quarter of 2016, the average China US-dollar NBSK pulp list price was up $268 per tonne, or 45%. The Company's NBSK pulp unit sales realizations saw a substantial increase when compared to the fourth quarter of 2016, primarily reflecting the notable strengthening in US-dollar prices, offset in part by a 4 cent or 5% stronger Canadian dollar combined with the unfavourable impact of the timing of shipments (versus orders) and increased customer discounts in North America. Average BCTMP unit sales realizations also increased significantly when compared to the fourth quarter of 2016, primarily reflecting the improvement in BCTMP market demand, which more than offset the stronger Canadian dollar.

Energy revenues increased during the fourth quarter of 2017 compared to the previous quarter, reflecting seasonally higher energy prices combined with strong power generation at the Company's Intercontinental and Prince George NBSK pulp mills, offset in part by reduced power generation at the Northwood NBSK pulp mill due to the unscheduled outage in the current period. Energy revenues in the current quarter were in line with the the fourth quarter of 2016, primarily due to comparable Company-wide power generation quarter over quarter, largely correlated to pulp production variances between the periods.

Operations

Pulp production in the fourth quarter at 307,600 tonnes was broadly in line with both comparative periods. Production in the current quarter reflected an unscheduled outage and subsequent repairs on one production line at the Company's Northwood NBSK pulp mill as a result of a tube leak in the number five recovery boiler, which reduced pulp production by approximately 11,000 tonnes. In addition, the Company completed a planned scheduled outage at the Taylor BCTMP mill, which reduced pulp production by approximately 3,000 tonnes. An efficient start-up following the downtime and improved operating rates during the quarter partly offset the impact of these outages on pulp production in the current quarter. In the third quarter of 2017, the Company completed a scheduled maintenance outage at the Intercontinental NBSK pulp mill, which reduced pulp production by approximately 10,000 tonnes. In the comparative fourth quarter of 2016, the Company experienced a lower operating rate, primarily due to extreme cold weather challenges during that comparative period.

Pulp unit manufacturing costs were largely consistent with the third quarter of 2017, as increased maintenance spend combined with higher energy usage in the current quarter, primarily due to the aforementioned unplanned outage, were offset by improved productivity in the latter part of the quarter and lower chemical costs. Fibre costs were relatively flat compared to the third quarter of 2017 as higher market prices for delivered sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations), coupled with a modest increase in the proportion of higher-cost whole log chips in the current quarter, were offset by seasonal pricing adjustments arising from the adverse weather conditions in the current quarter.

Compared to the fourth quarter of 2016, pulp unit manufacturing costs saw a modest increase, principally due to higher fibre costs, and to a lesser extent, higher chemical pricing and increased maintenance spend in the current quarter, partially offset by improved productivity and lower energy costs. Increased fibre costs in the current quarter largely reflected significantly higher market prices for delivered sawmill residual chips combined with a larger proportion of higher-cost whole log chips.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars, unless otherwise noted)	**Q4 2017**	Q3 2017	Q4 2016
Sales	**$ 45.6**	$ 41.2	$ 41.8
Operating income before amortization[18]	**$ 8.4**	$ 5.9	$ 9.1
Operating income	**$ 7.4**	$ 4.9	$ 8.1
Production – paper (000 mt)	**35.0**	34.8	36.0
Shipments – paper (000 mt)	**35.8**	34.0	33.6

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

Markets

Global kraft paper markets were healthy through the fourth quarter of 2017. The positive momentum from North American markets experienced in the first half of 2017 continued through the back half of 2017, while certain offshore markets, particularly Asia, saw increasing demand.

Sales

The Company's paper shipments in the fourth quarter of 2017 were 35,800 tonnes, up 1,800 tonnes, or 5%, from the previous quarter and up 2,200 tonnes, or 7% from the fourth quarter of 2016, principally reflecting the favourable timing of shipments.

Paper unit sales realizations in the fourth quarter of 2017 saw a modest increase when compared to the previous quarter, reflecting higher market-driven US-dollar pricing combined with the 1% weaker Canadian dollar. Compared to the same quarter of 2016, paper unit sales realizations saw a slight improvement, as favourable pricing more than offset the 5% stronger Canadian dollar.

Operations

Paper production for the fourth quarter of 2017 of 35,000 tonnes, was broadly in line with the previous quarter, and down 1,000 tonnes, or 3%, when compared to the fourth quarter of 2016, principally reflecting a slightly lower operating rate in the current quarter.

Paper unit manufacturing costs increased compared to both the third quarter of 2017 and the fourth quarter of 2016. The increase compared to the immediately prior quarter were primarily driven by significantly higher slush pulp costs, associated with higher average NBSK sales realizations, in the current quarter. Compared to the fourth quarter of 2016, the increase in paper unit manufacturing costs principally reflected the higher slush pulp costs and, to a lesser extent, increases in maintenance spend and higher chemical costs in the current quarter.

Unallocated Items

(millions of Canadian dollars)	Q4 2017	Q3 2017	Q4 2016
Corporate costs	**$ (3.0)**	$ (2.8)	$ (3.3)
Finance expense, net	**$ (1.9)**	$ (1.8)	$ (1.9)
Other income (expense), net	**$ -**	$ (3.0)	$ (5.1)

Corporate costs were $3.0 million for the fourth quarter of 2017, up $0.2 million when compared to the third quarter of 2017 and down $0.3 million when compared to the fourth quarter of 2016.

Net finance expense for the fourth quarter of 2017 at $1.9 million, was broadly in line with both comparative periods and related primarily to interest expense associated with the Company's employee future benefit plans and term debt as well as fees associated with Company's outstanding letters of credit.

Other expenses, net, were $nil for the fourth quarter of 2017, down when compared to both comparative periods. In the fourth quarter of 2017, realized foreign exchange gains during the current quarter were offset by unrealized losses on US-dollar denominated cash and accounts receivable at the end of the period. In the fourth quarter of 2016, in addition to foreign exchange movements on working capital balances, the net other expense of $5.1 million includes the write-down of research and development related advances to Licella (see further discussion in the "Licella Pulp Joint Venture" section), in part offset by favourable exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income (Loss)

In the fourth quarter of 2017, the Company recorded an after-tax gain of $22.3 million related to changes in the valuation of the Company's employee future benefit plans.

Compared to the third quarter of 2017, the gain primarily reflected a 50% reduction in MSP premiums following a change in legislation in British Columbia, and, to a lesser extent, a reduction in the MSP growth trend rate used to value the obligation and the return generated on plan assets. The gains were partially offset by a 0.4% decrease in the discount rate used to value the obligation. This compared to an after-tax gain of $4.6 million in the previous quarter and an after-tax gain of $2.5 million in the fourth quarter of 2016, with the gains in both cases largely reflecting higher discount rates.

During the fourth quarter of 2017, the Company purchased $19.3 million of annuities through its defined benefit plans in order to mitigate its exposure to the future volatility fluctuations in the related pension obligations. At purchase of these annuities, transaction costs of $0.5 million were recognized in Other Comprehensive Income principally reflecting the difference in the annuity rate as compared to the discount rate used to value the pension obligations on a going concern basis. For more information, see the "Employee Future Benefits" part of the "Critical Accounting Estimates" section later in this report.

Summary of Financial Position

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

(millions of Canadian dollars)	Q4 2017	Q3 2017	Q4 2016
Increase (decrease) in cash and cash equivalents	**$ (4.6)**	$ (10.2)	$ 20.0
Operating activities	**$ 78.4**	$ 21.1	$ 47.1
Financing activities	**$ (55.1)**	$ (12.5)	$ (5.3)
Investing activities	**$ (27.9)**	$ (18.8)	$ (21.8)

Cash generated from operating activities was $78.4 million in the fourth quarter of 2017, up $57.3 million from the previous quarter and $31.3 million from the fourth quarter of 2016. The increase in operating cash flows compared to the previous quarter principally reflected higher cash earnings combined with lower tax installment payments, partially offset by unfavourable movements in non-cash working capital. The increase in non-cash working capital in the current quarter related principally to higher accounts receivable balances, primarily due to higher average NBSK and BCTMP pulp unit sales realizations, partly offset by increased accounts payable and accrued liabilities, which were mostly timing related.

Cash used for financing activities was $55.1 million in the fourth quarter of 2017, up $42.6 million from the third quarter of 2017 and $49.8 million from the fourth quarter of 2016. Cash used for financing activities in the current quarter included the early repayment of the Company's $50.0 million long-term debt, combined with the Company's quarterly dividend payment of $4.1 million ($0.0625 per share) as well as interest paid of $1.0 million. In the fourth quarter of 2017, the Company repurchased 7,575 common shares under its normal course issuer, bid for $0.1 million, which was paid subsequent to year end. This compared to $7.5 million for common shares repurchased in the third quarter of 2017. In the fourth quarter of 2016, the Company did not repurchase common shares under its normal course issuer bid (see further discussion of the shares purchased under the "Normal Course Issuer Bid" part of the "Liquidity and Financial Requirements" section).

Cash used for investing activities of $27.9 million in the current quarter primarily related to capital expenditures associated with several capital projects including the previously announced energy projects at the Company's Northwood and Taylor pulp mills.

SPECIFIC ITEMS AFFECTING COMPARABILITY

Specific Items Affecting Comparability of Net Income

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

After-tax impact (millions of Canadian dollars, except for per share amounts)	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net income, as reported	**$ 45.2**	**$ 12.6**	**$ 20.2**	**$ 24.1**	$ 10.1	$ 22.4	$ 2.2	$ 23.1
Change in substantively enacted tax legislation	**$ 2.8**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -	$ -
Net impact of above items	**$ 2.8**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -	$ -
Adjusted net income	**$ 48.0**	**$ 12.6**	**$ 20.2**	**$ 24.1**	$ 10.1	$ 22.4	$ 2.2	$ 23.1
Net income per share (EPS), as reported	**$ 0.69**	**$ 0.19**	**$ 0.31**	**$ 0.36**	$ 0.15	$ 0.34	$ 0.03	$ 0.34
Net impact of above items per share[19]	**$ 0.04**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -	$ -
Adjusted net income per share[19]	**$ 0.73**	**$ 0.19**	**$ 0.31**	**$ 0.36**	$ 0.15	$ 0.34	$ 0.03	$ 0.34

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

OUTLOOK

Pulp Markets

Global softwood kraft pulp markets are projected to remain well positioned through the first quarter of 2018, with continued strong shipments into Asian markets, particularly China, and sustained demand in other markets. The Company has announced NBSK pulp list price increases of US$10 per tonne to China for January 2018, and two consecutive price increases to North America, each of US$30 per tonne, for February and March 2018. A balanced kraft pulp market is projected to continue into the second quarter of 2018, when many pulp producers have their traditional spring maintenance outages. The BCTMP market is seeing some reduced demand in the first quarter of 2018, which is resulting in downward price pressure. Early 2018 weather related transportation disruptions are projected to result in delayed shipments and modestly higher costs for the first quarter of 2018. The pulp outlook for the second half of the year is more uncertain given incremental pulp capacity currently projected to come online and the potential for the reinstatement of some import permits for recovered paper in China through 2018.

The Company has no maintenance outages planned for the first quarter of 2018. Maintenance outages are currently planned at the Prince George NBSK pulp mill and at the Taylor BCTMP mill in the second quarter of 2018 with a projected 5,000 tonnes of reduced NBSK pulp production and 11,000 tonnes of reduced BCTMP production, respectively. The schedule outage at the Taylor BCTMP mill will include work associated with the previously announced energy project. A maintenance outage at the Northwood NBSK pulp mill is scheduled in the third quarter of 2018 with a projected 22,000 tonnes of reduced NBSK pulp production.

Paper Markets

Bleached kraft paper demand is currently solid and is expected to remain positive through the first half of 2018. Price increases announced in the latter part of 2017 are projected to be realized in the first quarter of 2018.

A maintenance outage is currently planned at the Company's paper machine during the second quarter of 2018 with a projected 4,000 tonnes of reduced paper production.

CRITICAL ACCOUNTING ESTIMATES

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

Employee Future Benefits

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

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

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

	December 31, 2017		December 31, 2016	
	Defined Benefit Pension Plans	**Other Benefit Plans**	Defined Benefit Pension Plans	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).

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)

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

Asset Retirement Obligations

CPPI records the estimated fair value of liabilities for asset retirement obligations, such as landfill closures, in the period in which they are incurred. For landfill closure costs, the fair value is determined using estimated closure costs discounted over the estimated useful life. Payments relating to landfill closure costs are expected to occur at periods ranging from 5 to 34 years and have been discounted at risk-free rates ranging from 1.9% to 2.3%. The actual closure costs and periods of payment may differ from the estimates used in determining the year end liability. On initial recognition, the fair value of the liability is added to the carrying amount of the associated asset and amortized over its useful life. The liability is accreted over time through charges to earnings and reduced by actual costs of settlement.

Asset Impairments

CPPI reviews the carrying values of its long-lived assets, including property, plant and equipment on a regular basis as events or changes in circumstances may warrant. An impairment loss is recognized in net income at the amount that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. No impairments were recorded in 2017 or 2016.

Deferred Taxes

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

Valuation of Finished Product Inventories

Finished product inventories are recorded at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. CPPI estimates the net realizable value of the finished goods inventories based on actual and forecasted sales orders. Based on these estimates, there were no write-downs of the Company's finished goods inventories from cost to net realizable at December 31, 2017.

FUTURE CHANGES IN ACCOUNTING POLICIES

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; however, 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 are $1.2 million.

RISKS AND UNCERTAINTIES

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

Aboriginal Issues

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

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

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

Capital Requirements

The pulp and paper industries are capital intensive, and the Company regularly incurs capital expenditures to expand its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws. The Company's total capital expenditures during 2017 were approximately $83.1 million. The Company anticipates available cash resources and cash generated from operations will be sufficient to fund its operating needs and capital expenditures.

Climate Change

The Company's operations are subject to adverse events brought on by both natural and man-made disasters. These events include, but are not limited to, severe weather conditions, forest fires, earthquakes and timber diseases and insect infestations. These events could damage or destroy the Company's operating facilities, adversely affect Canfor's timber supply or result in reduced transportation availability. These events could have similar effect on the facilities of the Company's suppliers and customers. Any of the damage caused by these events could increase costs and decrease production capacity at the Company's operations having an adverse effect on the Company's financial results. The Company believes there are reasonable insurance arrangements in place to cover certain outcomes of such incidents however; there can be no guarantees that these arrangements will fully protect the Company against such losses.

Competitive Markets

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

Currency Exchange Risk

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

Cyclicality of Product Prices

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

Dependence on Canfor

In 2017, approximately 62% of the fibre used by the Company was derived from the Fibre Supply Agreements with Canfor. The Company's financial results could be materially adversely affected if Canfor is unable to provide the current volume of wood chips as a result of mill closures, whether temporary or permanent.

Dependence on Key Customers

In 2017, the Company's top five customers accounted for approximately 29% of its pulp sales. In the event that the Company cannot maintain these customer relationships or the demand from these customers is diminished for any reason in the future, there is a risk that the Company would be forced to find alternative markets in which to sell its pulp, which in turn, could result in lower prices or increased distribution costs thereby adversely affecting its sales margins.

Dividends

CPPI paid quarterly dividends of $0.0625 per share through 2017 and may, subject to market conditions, continue to pay a comparable level of dividends through 2018. There is no assurance that the dividends will be maintained at this level and the market value of CPPI shares may fluctuate depending on the amount of dividends paid in the future. The board retains the discretion to change the policy at any time and reviews the policy on a quarterly basis.

Employee Future Benefits

The Company, in participation with Canfor, has several defined benefit plans, which provide pension benefits to certain salaried employees. Benefits are based on a combination of years of service and final average salary. Cash payments required to fund the pension plan are determined by actuarial valuation completed at least once every three years, with the most recent actuarial valuation for the largest plan completed as of December 31, 2015.

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

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

The Company utilizes investments in buy-in annuities to reduce its exposure to these risks. Future cash flows from the annuities match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations.

For CPPI's pension benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the accrued benefit obligation by an estimated $10.7 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation by an estimated $13.2 million. These changes would only impact the Company's funding requirements in years where a new actuarial funding valuation was performed and regulatory approval for a change in funding contributions was obtained.

Environmental Laws, Regulations and Compliance

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

The Company has incurred, and expects to continue to incur, capital, operating and other expenditures complying with applicable environmental laws and regulations and as a result of environmental remediation on asset retirement obligations. It is possible that the Company could incur substantial costs, such as civil or criminal fines, sanctions and enforcement actions, cleanup and closure costs, and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws and regulations. The amount and timing of environmental expenditures is difficult to predict, and, in some cases, the Company's liability may exceed forecasted amounts. The discovery of additional contamination or the imposition of additional cleanup obligations at the

Company's or third-party sites may result in significant additional costs. Any material expenditure incurred could adversely impact the Company's financial condition or preclude the Company from making capital expenditures that would otherwise benefit the Company's business. Enactment of new environmental laws or regulations or changes in existing laws or regulations, or interpretation thereof, could have a significant impact on the Company.

Financial Risk Management and Earnings Sensitivities

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

Financial Risk Management

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

The CPPI internal Risk Management Committee manages risk in accordance with a Board approved 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.

(a) Credit risk:

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

Financial instruments that are subject to credit risk include cash and cash equivalents and accounts receivable. Cash and cash equivalents includes cash held through major Canadian and international financial institutions as well as temporary investments with an original maturity date, or redemption date, of three months or less. The cash and cash equivalents balance at December 31, 2017 is $76.7 million.

CPPI utilizes credit insurance to manage the risk associated with trade receivables. As at December 31, 2017, approximately 76% 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. At December 31, 2017, approximately 99% of the trade accounts receivable balance are within CPPI's established credit terms.

(b) Liquidity risk:

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

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

(c) Market risk:

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

(i) *Interest Rate risk:*

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

CPPI may use interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates. At December 31, 2017 CPPI had no fixed interest rate swaps outstanding.

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

(ii) *Currency risk:*

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

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 (See "Derivative Financial Instruments" section later in this document).

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

(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.

(iv) *Energy price risk:*

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

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

CPPI had no WTI oil collars outstanding at December 31, 2017.

Derivative Financial Instruments

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

Earnings Sensitivities

Estimates of the sensitivity of CPPI's pre-tax results to currency fluctuations and prices for its principal products, based on 2018 forecast production and year end foreign exchange rates, are set out in the following table:

(millions of Canadian dollars)	Impact on annual pre-tax earnings
NBSK Pulp – US$10 change per tonne [20]	$ 11
BCTMP – US$10 change per tonne [20]	$ 3
Natural gas cost – $1 change per gigajoule	$ 7
Chip cost – $1 change per tonne	$ 3
Canadian dollar – US$0.01 change per Canadian dollar[21]	$ 8

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

Governmental Regulations

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

Increased Industry Production Capacity

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

Information Technology

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

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

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

Maintenance Obligations and Facility Disruptions

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

Raw Material Costs

The principal raw material utilized by the Company in its manufacturing operations is wood chips. The Company's evergreen Fibre Supply Agreements with Canfor contain a pricing formula that currently results in the Company paying market price for wood chips and contains provisions to adjust the pricing to reflect market conditions. The current pricing under one of these agreements expired September 1, 2016, and may be amended as necessary to ensure it is reflective of market conditions. The Company and Canfor agreed to extend the chip pricing formula under this agreement until September 1, 2018. Prices for wood chips are not within the Company's control and are driven by market demand, product availability, environmental restrictions, logging regulations, the imposition of fees or other restrictions on exports of lumber into the US and other matters. The Mountain Pine Beetle epidemic in the region continues to impact overall fibre supply for the interior sawmills. The Prince George Timber Supply Area allowable annual cut ("AAC") has recently been reduced and is scheduled for another reduction in 2023. This has the potential to significantly reduce the availability of residual chips that the Company currently consumes from regional sawmills, and an increased reliance on higher-cost whole log chips may be required. Residual chip pricing also depends on current sawmills running at current levels. If the residual chip supply is reduced, as a result of AAC reductions, lower sawmill production or sawmill closures, whether temporary or permanent, it is expected that the market price for wood chips will increase. The Company is not always able to increase the selling prices of its products in response to increases in raw material costs.

Transportation Services

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

Work Stoppages

Any labour disruptions and any costs associated with labour disruptions at the Company's mills could have a material adverse effect on the Company's production levels and results of operations. Any inability to negotiate acceptable contracts with the Unifor and PPWC unions as they expire could result in a strike or work stoppage by the affected workers, and increased operating costs as a result of higher wages or benefits paid to unionized workers.

OUTSTANDING SHARE DATA

At February 22, 2018, based on trade date, there were 65,250,759 common shares issued and outstanding.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2017, and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR"), and confirm that there were no changes in these controls that occurred during the year ended December 31, 2017 which materially affected, or are reasonably likely to materially affect, the Company's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2017, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2017 Annual Information Form, is available at www.sedar.com or at www.canfor.com.