2018

CANFOR PULP PRODUCTS INC.

QUARTER ONE
Interim Report

FOR THE THREE MONTHS
ENDED MAR 31. 2018

CANFOR

To Our Shareholders

Canfor Pulp Products Inc. ("CPPI") reported first quarter 2018 results and quarterly dividend:

Highlights

- Record quarterly operating income of $85 million, surpassing previous high set in the fourth quarter of 2017
- Record-high quarterly sales of $360 million
- Net income of $64 million, or $0.99 per share

Financial Results

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

(millions of Canadian dollars, except per share amounts)	Q1 2018	Q4 2017	Q1 2017
Sales	**$ 359.7**	$ 322.9	$ 309.2
Operating income before amortization	**$ 104.3**	$ 85.6	$ 54.0
Operating income	**$ 85.1**	$ 66.8	$ 35.2
Net income	**$ 64.3**	$ 45.2	$ 24.1
Net income per share, basic and diluted	**$ 0.99**	$ 0.69	$ 0.36
Adjusted net income[1]	**$ 64.3**	$ 48.0	$ 24.1
Adjusted net income per share, basic and diluted[1]	**$ 0.99**	$ 0.73	$ 0.36

[1] Adjusted for $2.8 million increase in tax expense that was recognized in the fourth quarter of 2017, as a result of an increase in the corporate tax rate that was substantively enacted by the Provincial Government of British Columbia.

The Company reported operating income of $85.1 million for the first quarter of 2018, an increase of $18.3 million from the $66.8 million reported in the fourth quarter of 2017 as the benefit of near-record high US-dollar pricing for Northern Bleached Softwood Kraft ("NBSK") pulp and improved productivity in the latter part of the quarter more than offset challenges presented by severe winter weather in Western Canada earlier in the period, and the effects of major transportation disruptions to all the Company's operations through the quarter.

Global softwood pulp markets remained favourable through the first quarter of 2018, resulting in US-dollar NBSK pulp list prices holding at near-record high prices, and a significant increase in average NBSK pulp unit sales realizations. Average Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") unit sales realizations showed a more moderate increase in the quarter, with increased demand towards the end of 2017 translating into higher average prices for product shipped in the current quarter.

Pulp shipments were up 3% from the previous quarter, as a 14,000 tonne vessel slippage from December into January more than offset transportation constraints which reflected challenging weather conditions in Western Canada. Pulp production was broadly in line with the fourth quarter of 2017, as strong productivity in March combined with increased operating days following the unscheduled outage at the Company's Northwood pulp mill in the previous quarter largely offset the impacts of various weather-related disruptions in January and February. Pulp unit manufacturing costs were moderately higher than the previous quarter, largely reflecting market-driven increases in fibre costs and weather-related increases in energy costs.

Operating income in the Company's paper segment at $2.9 million was down $4.5 million from the fourth quarter of 2017, as improved paper unit sales realizations were more than offset by increased slush pulp costs linked to higher Canadian dollar NBSK market pulp prices.

Global softwood kraft pulp markets are projected to remain well positioned through the second quarter of 2018, reflecting both continued solid demand and tighter supply arising from the current transportation challenges as well as the traditional spring maintenance period. The outlook for the latter part of 2018 remains more uncertain given incremental pulp capacity currently projected to come online. For the month of April 2018, the Company announced an increase of US$30 per tonne for NBSK pulp list prices to North America. The ongoing transportation disruptions and associated impact on shipments are projected to continue for several months as transportation networks slowly return to normal service levels.

Results in the second quarter of 2018 will reflect scheduled maintenance outages at the Prince George NBSK pulp mill and paper machine, as well as at the Taylor BCTMP mill, with a projected 5,000 tonnes of reduced NBSK pulp production, 4,000 tonnes of reduced paper production and 11,000 tonnes of reduced BCTMP production, respectively, combined with higher associated maintenance costs and lower projected shipment volume. The scheduled outage at the Taylor BCTMP mill will include work associated with the previously announced energy project. The Northwood NBSK pulp mill has a maintenance outage scheduled for the third quarter of 2018, with a projected 22,000 tonnes of reduced NBSK pulp production.

On April 24, 2018, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on May 14, 2018 to the shareholders of record on May 7, 2018.

Conrad A. Pinette
Chairman

Don B. Kayne
Chief Executive Officer

Canfor Pulp Products Inc.
First Quarter 2018
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the quarter ended March 31, 2018 relative to the quarters ended December 31, 2017 and March 31, 2017, and the financial position of the Company at March 31, 2018. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended, March 31, 2018 and 2017, as well as the 2017 annual MD&A and the 2017 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2017 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income 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 (calculated as Net Income less specific items affecting comparability with prior periods) and Adjusted Net Income per Share (calculated as Adjusted Net Income divided by the weighted average number of shares outstanding during the period). Operating Income before Amortization, Adjusted Net Income and Adjusted Net Income per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, CPPI's Operating Income before Amortization, Adjusted Net Income and Adjusted Net Income per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income before Amortization to Operating Income and Adjusted Net Income to Net Income reported in accordance with IFRS are included in this MD&A. Throughout this discussion reference is made to the current quarter which refers to the results for the first quarter of 2018.

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at April 24, 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.

FIRST QUARTER 2018 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)		Q1 2018		Q4 2017		Q1 2017
Operating income (loss) by segment:						
Pulp	$	**86.4**	$	62.4	$	31.1
Paper	$	**2.9**	$	7.4	$	7.1
Unallocated	$	**(4.2)**	$	(3.0)	$	(3.0)
Total operating income	$	**85.1**	$	66.8	$	35.2
Add: Amortization[1]	$	**19.2**	$	18.8	$	18.8
Total operating income before amortization	$	**104.3**	$	85.6	$	54.0
Add (deduct):						
Working capital movements	$	**(22.2)**	$	(5.2)	$	(0.2)
Defined benefit pension plan contributions, net	$	**(1.7)**	$	(2.2)	$	(1.5)
Income taxes paid, net	$	**(19.1)**	$	(1.5)	$	(0.2)
Other operating cash flows, net	$	**5.8**	$	1.7	$	(1.4)
Cash from operating activities	$	**67.1**	$	78.4	$	50.7
Add (deduct):						
Dividends paid	$	**(4.1)**	$	(4.1)	$	(4.2)
Finance expenses paid	$	**(0.7)**	$	(1.0)	$	(0.7)
Capital additions, net	$	**(19.8)**	$	(28.1)	$	(16.8)
Share purchases	$	**(0.1)**	$	-	$	(2.8)
Repayment of long-term debt	$	**-**	$	(50.0)	$	-
Other, net	$	**0.3**	$	0.2	$	0.2
Change in cash / operating loans	$	**42.7**	$	(4.6)	$	26.4
ROIC – Consolidated period-to-date[2]		**12.9%**		10.2%		5.3%
Average exchange rate (US$ per C$1.00)[3]	$	**0.791**	$	0.786	$	0.756

[1] Amortization includes amortization of certain capitalized major maintenance costs.
[2] 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 period. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital.
[3] Source – Bank of Canada (monthly average rate for the period).

Analysis of Specific Material Items Affecting Comparability of Net Income

After-tax impact (millions of Canadian dollars, except per share amounts)		Q1 2018		Q4 2017		Q1 2017
Net income, as reported	$	**64.3**	$	45.2	$	24.1
Change in substantively enacted tax legislation	$	**-**	$	2.8	$	-
Net impact of above items	$	**-**	$	2.8	$	-
Adjusted net income	$	**64.3**	$	48.0	$	24.1
Net income per share (EPS), as reported	$	**0.99**	$	0.69	$	0.36
Net impact of above items per share	$	**-**	$	0.04	$	-
Adjusted net income per share	$	**0.99**	$	0.73	$	0.36

The Company reported operating income of $85.1 million for the first quarter of 2018, an increase of $18.3 million from the $66.8 million reported in the fourth quarter of 2017 as the benefit of near-record high US-dollar pricing for Northern Bleached Softwood Kraft ("NBSK") pulp and improved productivity in the latter part of the quarter more than offset challenges presented by severe winter weather in Western Canada earlier in the period, and the effects of major transportation disruptions to all the Company's operations through the quarter.

Compared to the first quarter of 2017, operating income was up $49.9 million reflecting substantially higher average NBSK pulp and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") US-dollar pricing, which significantly outweighed a 5% stronger Canadian dollar, lower shipments and a notable increase in pulp unit manufacturing costs, largely attributable to higher market-based fibre costs, and to a lesser extent, higher chemical costs in the current quarter.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	Q1 2018	Q4 2017	Q1 2017
Sales	**$ 317.5**	$ 277.3	$ 267.4
Operating income before amortization[4]	**$ 104.5**	$ 80.1	$ 49.0
Operating income	**$ 86.4**	$ 62.4	$ 31.1
Average NBSK pulp price delivered to China – US$[5]	**$ 910**	$ 863	$ 645
Average NBSK pulp price delivered to China – Cdn$[5]	**$ 1,150**	$ 1,098	$ 853
Production – pulp (000 mt)	**311.7**	307.6	317.1
Shipments – pulp (000 mt)	**310.0**	299.7	337.1

[4] Amortization includes amortization of certain capitalized major maintenance costs.
[5] 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 softwood pulp markets remained favourable through the first quarter of 2018. Transportation constraints contributed to a build of softwood pulp inventories in Western Canada, and with the industry historically taking minimal maintenance downtime during the first quarter of the year, global softwood pulp inventories ended slightly above the balanced range as at the end of February 2018 at 31 days of supply, an increase of 1 day from December 2017, and an increase of 1 day from March 2017[6]. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood pulp decreased by 4.1%, for the first two months of 2018 compared to the first two months of 2017, driven primarily by decreased shipments to China[7].

Sales

The Company's pulp shipments for the first quarter of 2018 were 310,000 tonnes, up 10,300 tonnes, or 3%, from the previous quarter and down 27,100 tonnes, or 8%, from the first quarter of 2017. Pulp shipments in the current quarter included the benefit of a 14,000 tonne vessel slippage over year-end that offset transportation delays mostly related to the severe winter weather in Western Canada. Compared to the first quarter of 2017, the 8% decrease in NBSK pulp shipments was largely a function of the more adverse weather in the current quarter.

The average China US-dollar NBSK pulp list price of US$910 per tonne, as published by RISI, was up US$47 per tonne, or 5%, from the fourth quarter of 2017. Average NBSK pulp unit sales realizations were significantly higher than the previous quarter, which for the most part reflected higher pricing and, to a lesser extent, the timing of shipments (versus orders). Despite lower US-dollar list prices towards the end of the current quarter, average BCTMP unit sales realizations showed a moderate increase quarter-over-quarter, due in part to the strong demand experienced towards the end of 2017 being realized in the current quarter.

Compared to the first quarter of 2017, the average China US-dollar NBSK pulp list price was up US$265 per tonne, or 41%. Prices on shipments to North America showed more modest gains over the same period. The higher global US-dollar prices resulted in substantially higher average NBSK pulp unit sales realizations, even after taking account of a 4 cent, or 5%, stronger Canadian dollar. Average BCTMP unit sales realizations also increased significantly when compared to the first quarter of 2017 primarily reflecting the improvement in BCTMP market demand, which more than offset the stronger Canadian dollar in the first quarter of 2018.

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

Energy revenues were slightly higher than the fourth quarter of 2017, primarily reflecting seasonally higher energy prices. Compared to the first quarter of 2017, lower energy revenue reflected the adverse winter weather conditions in the first part of the current quarter.

Operations

Pulp production in the first quarter of 2018 at 311,700 tonnes was broadly in line with the previous quarter, as strong productivity in March combined with an increase in operating days quarter-over-quarter was partly offset by several weather-related operational challenges in January and February. Results in the fourth quarter of 2017 included an unscheduled maintenance outage at the Company's Northwood NBSK pulp mill and a scheduled maintenance outage at the Company's Taylor BCTMP mill, reducing pulp production by approximately 11,000 tonnes and 3,000 tonnes, respectively. Pulp production in the current quarter was down slightly compared with the first quarter of 2017, with improved productivity in March partly offsetting weather-related effects on operations in the first two months of 2018.

Pulp unit manufacturing costs saw a moderate increase compared to the previous quarter reflecting increased fibre costs, weather-related impacts to energy and operational costs, and to a lesser extent, higher chemical costs. The higher fibre costs largely reflected increased market prices for delivered sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations). Compared to the first quarter of 2017, higher pulp unit manufacturing costs reflected the significant market-related increases in fibre costs, and to a lesser extent, higher chemical costs in the current quarter.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars, unless otherwise noted)	**Q1 2018**	Q4 2017	Q1 2017
Sales	**$ 42.0**	$ 45.6	$ 41.6
Operating income before amortization[8]	**$ 4.0**	$ 8.4	$ 8.0
Operating income	**$ 2.9**	$ 7.4	$ 7.1
Production – paper (000 mt)	**34.3**	35.0	34.6
Shipments – paper (000 mt)	**32.0**	35.8	33.7

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

Markets

Global kraft paper markets remained solid through the first quarter of 2018, reflecting healthy demand from North American and Asian markets.

Sales

The Company's paper shipments in the first quarter of 2018 of 32,000 tonnes, were down 3,800 tonnes from the fourth quarter of 2017, and down 1,700 tonnes from the first quarter of 2017, largely reflecting timing of shipments due in part to the adverse weather conditions in the current quarter.

Paper unit sales realizations in the first quarter of 2018 saw a modest increase compared to the previous quarter, largely reflecting higher market-driven US-dollar pricing. Compared to the first quarter of 2017, paper unit sales realizations saw a moderate improvement, as favourable US-dollar pricing more than offset the 5% stronger Canadian dollar.

Operations

Paper production for the first quarter of 2018 at 34,300 tonnes was down 2% compared to the previous quarter largely reflecting a slightly lower operating rate in the current quarter. Paper production was in line with the first quarter of 2017.

Higher paper unit manufacturing costs, compared to both the fourth quarter of 2017 and first quarter of 2017, reflected higher slush pulp costs associated with higher average NBSK pulp sales realizations in the current quarter.

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)	Q1 2018	Q4 2017	Q1 2017
Corporate costs	**$ (4.2)**	$ (3.0)	$ (3.0)
Finance expense, net	**$ (1.2)**	$ (1.9)	$ (1.8)
Other income (expense), net	**$ 3.8**	$ -	$ (1.0)

Corporate costs were $4.2 million for the first quarter of 2018, up $1.2 million from both comparative periods primarily reflecting costs associated with organizational reductions in senior management.

Net finance expense for the first quarter of 2018 at $1.2 million was down from both comparative quarters reflecting the early repayment of the Company's $50.0 million long-term debt towards the end of 2017, and lower interest expense associated with the Company's employee future benefit plans.

Other income of $3.8 million in the first quarter of 2018 principally related to favourable foreign exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income (Loss)

In the first quarter of 2018, the Company recorded an after-tax gain of $2.4 million related to changes in the valuation of the Company's employee future benefits plans. The gain in the current quarter principally reflected a 0.2% increase in the discount rate used to value the employee future benefit plans, partially offset by a return on plan assets lower than the discount rate. This compared to an after-tax gain of $22.3 million recorded in the fourth quarter of 2017, largely reflecting a 50% reduction in MSP premiums following a change in legislation in British Columbia, offset in part by a 0.4% decrease in the discount rate used to value the obligation.

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.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)	Q1 2018	Q4 2017	Q1 2017
Increase (decrease) in cash and cash equivalents	**$ 42.7**	$ (4.6)	$ 26.4
Operating activities	**$ 67.1**	$ 78.4	$ 50.7
Financing activities	**$ (4.9)**	$ (55.1)	$ (7.7)
Investing activities	**$ (19.5)**	$ (27.9)	$ (16.6)
Ratio of current assets to current liabilities	**2.5 : 1**	2.3 : 1	2.5 : 1
Net debt to capitalization	**(23.2)%**	(15.5)%	(6.0)%
ROIC – Consolidated period-to-date	**12.9%**	10.2%	5.3%

Changes in Financial Position

Cash generated from operating activities was $67.1 million in the first quarter of 2018, down $11.3 million from the previous quarter and up $16.4 million from the first quarter of 2017. The decrease in operating cash flows compared to the previous quarter reflected unfavourable movements in non-cash working capital balances as well as higher tax installment payments, which were offset in part by higher cash earnings in the current quarter. The increase in non-cash working capital largely reflected higher accounts receivable balances due to higher pulp market prices. Compared to the first quarter of 2017, significantly higher cash earnings in the current quarter more than offset higher tax installment payments and unfavourable movements in non-cash working capital.

Cash used for financing activities was $4.9 million in the first quarter of 2018, down $50.2 million from the previous quarter, principally reflecting the early repayment of the Company's $50.0 million long-term debt in the fourth quarter of 2017, and down $2.8 million from the first quarter of 2017. Cash used for financing activities in the first quarter of 2018 included the Company's quarterly dividend payment of $4.1 million ($0.0625 per share).

Cash used for investing activities of $19.5 million in the current quarter primarily related to capital expenditures associated with the Company's previously announced energy projects at its Northwood and Taylor pulp mills.

Liquidity and Financial Requirements

At March 31, 2018, the Company had a $110.0 million unsecured operating loan facility which was unused, except for $10.8 million reserved for several standby letters of credit, leaving $99.2 million available and undrawn on the operating facility. On April 6, 2018, the maturity date of the Company's principal operating loan facility was extended from January 31, 2020 to April 6, 2022, and the terms of certain financial covenants were updated.

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

On March 5, 2018, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,262,941 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2018. The renewed normal course issuer bid is set to expire on March 6, 2019. During the first quarter of 2018 the Company purchased 500 common shares at an average price of $13.01 per common shares, and paid an additional $0.1 million in relation to shares purchased in the fourth quarter of 2017. As at March 31, 2018 and April 24, 2018, Canfor's ownership interest in CPPI was 54.8%. The Company may purchase more shares through the balance of 2018 subject to the terms of the normal course issuer bid.

Dividends

On April 24, 2018, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on May 14, 2018 to the shareholders of record on May 7, 2018.

Licella Pulp Joint Venture

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. 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. In April 2018, the Company received the first installment of funding in the amount of $1.9 million.

OUTLOOK

Pulp Markets

Global softwood kraft pulp markets are projected to remain well positioned through the second quarter of 2018, reflecting both continued solid demand and tighter supply arising from the current transportation challenges as well as the traditional spring maintenance period. The outlook for the latter part of 2018 remains more uncertain given incremental pulp capacity currently projected to come online. For the month of April 2018, the Company announced an increase of US$30 per tonne for NBSK pulp list prices to North America. The ongoing transportation disruptions and associated impact on shipments are projected to continue for several months as transportation networks slowly return to normal service levels.

Results in the second quarter of 2018 will reflect scheduled maintenance outages at the Prince George NBSK pulp mill, as well as at the Taylor BCTMP mill, with a projected 5,000 tonnes of reduced NBSK pulp production and 11,000 tonnes of reduced BCTMP production, respectively, combined with higher associated maintenance costs and lower projected shipment volume. The scheduled outage at the Taylor BCTMP mill will include work associated with the previously announced energy project. The Northwood NBSK pulp mill has a maintenance outage scheduled for the third quarter of 2018, with a projected 22,000 tonnes of reduced NBSK pulp production.

Paper Markets

Bleached kraft paper demand is anticipated to remain solid through the second quarter of 2018. A maintenance outage is currently planned at the Company's paper machine during the second quarter with a projected 4,000 tonnes of reduced paper production.

OUTSTANDING SHARES

At April 24, 2018 there were 65,250,759 common shares of the Company outstanding.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, pension and other employee future benefit plans and asset retirement obligations based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Company's financial condition.

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2018, the Company has adopted IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 supersedes IAS 18 *Revenue,* IAS 11 *Construction Contracts* and related interpretations. The standard establishes a framework based on transfer of control for determining how much and when revenue is recognized, and includes expanded disclosure requirements for annual financial statements. The adoption of IFRS 15 has had no significant impact on the Company's interim financial statements.

Effective January 1, 2018, the Company has adopted IFRS 9 *Financial Instruments*. IFRS 9 supersedes IAS 39 *Financial Instruments: Recognition and Measurement.* The standard includes requirements for recognition, measurement, impairment and derecognition of financial assets and liabilities, as well as general hedge accounting. The adoption of IFRS 9 has had no significant impact on the Company's interim financial statements.

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

In January 2016, the International Accounting Standards Board ("IASB") issued IFRS 16 *Leases*, which will supersede IAS 17 *Leases* and related interpretations. The required adoption date for IFRS 16 is January 1, 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will change as IFRS 16 replaces straight-line operating lease expense with a depreciation expense for right-of-use assets and interest expense on lease liabilities.

It is expected that IFRS 16 will have an impact on the Company's financial statements with recognition of new assets and liabilities for its operating leases. The Company is still in the process of assessing the quantitative impact on its financial statements of this new standard. The Company's future minimum lease payments, on an undiscounted basis, under non-cancellable operating leases at December 31, 2017 were $1.2 million.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2018, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2017 annual statutory reports which are available on www.canfor.com or www.sedar.com.

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Sales and income (millions of Canadian dollars)								
Sales	**$ 359.7**	$ 322.9	$ 284.9	$ 280.9	$ 309.2	$ 257.8	$ 291.6	$ 257.2
Operating income	**$ 85.1**	$ 66.8	$ 21.1	$ 31.5	$ 35.2	$ 22.9	$ 31.0	$ 5.2
Net income	**$ 64.3**	$ 45.2	$ 12.6	$ 20.2	$ 24.1	$ 10.1	$ 22.4	$ 2.2
Per common share (Canadian dollars)								
Net income – basic and diluted	**$ 0.99**	$ 0.69	$ 0.19	$ 0.31	$ 0.36	$ 0.15	$ 0.34	$ 0.03
Book value[9]	**$ 9.72**	$ 8.76	$ 7.78	$ 7.63	$ 7.55	$ 7.27	$ 7.14	$ 6.88
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
Shares repurchased (millions of Canadian dollars)	**$ -**	$ 0.1	$ 7.2	$ 7.5	$ 3.0	$ -	$ -	$ 19.5
Statistics								
Pulp shipments (000 mt)	**310.0**	299.7	303.3	276.3	337.1	275.4	319.8	287.2
Paper shipments (000 mt)	**32.0**	35.8	34.0	35.5	33.7	33.6	35.5	38.5
Average exchange rate – US$/Cdn$	**$ 0.791**	$ 0.786	$ 0.798	$ 0.744	$ 0.756	$ 0.750	$ 0.766	$ 0.776
Average NBSK pulp list price delivered to China (US$)	**$ 910**	$ 863	$ 670	$ 670	$ 645	$ 595	$ 595	$ 617

[9] 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.

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

After-tax impact (millions of Canadian dollars, except for per share amounts)	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Net income, as reported	**$ 64.3**	$ 45.2	$ 12.6	$ 20.2	$ 24.1	$ 10.1	$ 22.4	$ 2.2
Change in substantively enacted tax legislation	**$ -**	$ 2.8	$ -	$ -	$ -	$ -	$ -	$ -
Net impact of above items	**$ -**	$ 2.8	$ -	$ -	$ -	$ -	$ -	$ -
Adjusted net income	**$ 64.3**	$ 48.0	$ 12.6	$ 20.2	$ 24.1	$ 10.1	$ 22.4	$ 2.2
Net income per share (EPS), as reported	**$ 0.99**	$ 0.69	$ 0.19	$ 0.31	$ 0.36	$ 0.15	$ 0.34	$ 0.03
Net impact of above items per share	**$ -**	$ 0.04	$ -	$ -	$ -	$ -	$ -	$ -
Adjusted net income per share	**$ 0.99**	$ 0.73	$ 0.19	$ 0.31	$ 0.36	$ 0.15	$ 0.34	$ 0.03

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		As at March 31, 2018		As at December 31, 2017
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**119.4**	$	76.7
Accounts receivable - Trade		**122.4**		101.5
- Other		**13.5**		11.5
Inventories (Note 2)		**170.1**		165.5
Prepaid expenses and other		**12.3**		9.8
Total current assets		**437.7**		365.0
Property, plant and equipment and intangible assets		**524.4**		526.7
Other long-term assets		**0.6**		0.5
Total assets	**$**	**962.7**	$	892.2
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**174.1**	$	161.5
Total current liabilities		**174.1**		161.5
Retirement benefit obligations (Note 4)		**82.0**		85.2
Other long-term provisions		**6.3**		6.5
Deferred income taxes, net		**66.3**		67.6
Total liabilities	**$**	**328.7**	$	320.8
EQUITY				
Share capital	**$**	**480.9**	$	480.9
Retained earnings		**153.1**		90.5
Total equity	**$**	**634.0**	$	571.4
Total liabilities and equity	**$**	**962.7**	$	892.2

Subsequent Events (Notes 3, 11 and 12)

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

APPROVED BY THE BOARD

Director, S.E. Bracken-Horrocks

Director, C.A. Pinette

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended March 31, **2018**	2017
Sales	**$ 359.7**	$ 309.2
Costs and expenses		
Manufacturing and product costs	**208.8**	206.1
Freight and other distribution costs	**38.1**	42.0
Amortization	**19.2**	18.8
Selling and administration costs	**8.5**	7.1
	274.6	274.0
Operating income	**85.1**	35.2
Finance expense, net	**(1.2)**	(1.8)
Other income (expense), net	**3.8**	(1.0)
Net income before income taxes	**87.7**	32.4
Income tax expense (Note 6)	**(23.4)**	(8.3)
Net income	**$ 64.3**	$ 24.1
Net income per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 7)	**$ 0.99**	$ 0.36

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

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

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2018**	2017
Net income	**$ 64.3**	$ 24.1
Other comprehensive income		
Items that will not be recycled through net income:		
Defined benefit plan actuarial gains (Note 4)	**3.3**	-
Income tax expense on defined benefit plan actuarial gains (Note 6)	**(0.9)**	-
Other comprehensive income, net of tax	**2.4**	-
Total comprehensive income	**$ 66.7**	$ 24.1

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2018**	2017
Share capital		
Balance at beginning of period	**$ 480.9**	$ 491.6
Share purchases (Note 7)	**-**	(1.9)
Balance at end of period	**$ 480.9**	$ 489.7
Retained earnings		
Balance at beginning of period	**$ 90.5**	$ (6.9)
Net income	**64.3**	24.1
Defined benefit plan actuarial gains , net of tax	**2.4**	-
Dividends declared	**(4.1)**	(4.2)
Share purchases (Note 7)	**-**	(1.1)
Balance at end of period	**$ 153.1**	$ 11.9
Total equity	**$ 634.0**	$ 501.6

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2018**	2017
Cash generated from (used in):		
Operating activities		
Net income	**$ 64.3**	$ 24.1
Items not affecting cash:		
Amortization	**19.2**	18.8
Income tax expense	**23.4**	8.3
Employee future benefits expense	**1.1**	1.3
Finance expense, net	**1.2**	1.8
Other, net	**0.9**	(1.7)
Defined benefit plan contributions, net	**(1.7)**	(1.5)
Income taxes paid, net	**(19.1)**	(0.2)
	89.3	50.9
Net change in non-cash working capital (Note 8)	**(22.2)**	(0.2)
	67.1	50.7
Financing activities		
Finance expenses paid	**(0.7)**	(0.7)
Dividends paid	**(4.1)**	(4.2)
Share purchases (Note 7)	**(0.1)**	(2.8)
	(4.9)	(7.7)
Investing activities		
Additions to property, plant and equipment and intangible assets, net	**(19.8)**	(16.8)
Other, net	**0.3**	0.2
	(19.5)	(16.6)
Increase in cash and cash equivalents*	**42.7**	26.4
Cash and cash equivalents at beginning of period*	**76.7**	51.9
Cash and cash equivalents at end of period*	**$ 119.4**	$ 78.3

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, and include the accounts of Canfor Pulp Products Inc. ("CPPI") and its subsidiary entities, hereinafter referred to as "CPPI" or "the Company." At March 31, 2018 and April 24, 2018, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI.

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2017, available at www.canfor.com or www.sedar.com.

Effective January 1, 2018, the Company has adopted IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 supersedes IAS 18 *Revenue,* IAS 11 *Construction Contracts* and related interpretations. The standard establishes a framework based on transfer of control for determining how much and when revenue is recognized, and includes expanded disclosure requirements for annual financial statements. The adoption of IFRS 15 has had no significant impact on the Company's interim financial statements.

Effective January 1, 2018, the Company has adopted IFRS 9 *Financial Instruments*. IFRS 9 supersedes IAS 39 *Financial Instruments: Recognition and Measurement.* The standard includes requirements for recognition, measurement, impairment and derecognition of financial assets and liabilities, as well as general hedge accounting. The adoption of IFRS 9 has had no significant impact on the Company's interim financial statements.

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

These financial statements were authorized for issue by the Company's Board of Directors on April 24, 2018.

Accounting Standards Issued and Not Applied

In January 2016, the International Accounting Standards Board issued IFRS 16 *Leases*, which will supersede IAS 17 *Leases* and related interpretations. The required adoption date for IFRS 16 is January 1, 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will change as IFRS 16 replaces straight-line operating lease expense with a depreciation expense for right-of-use assets and interest expense on lease liabilities.

It is expected that IFRS 16 will have an impact on the Company's financial statements with recognition of new assets and liabilities for its operating leases. The Company is still in the process of assessing the quantitative impact on its financial statements of this new standard. The Company's future minimum lease payments, on an undiscounted basis, under non-cancellable operating leases at December 31, 2017 were $1.2 million.

2. Inventories

(millions of Canadian dollars, unaudited)		**As at March 31, 2018**		As at December 31, 2017
Pulp	**$**	**82.5**	$	78.5
Paper		**18.6**		14.9
Wood chips and logs		**14.4**		19.9
Materials and supplies		**54.6**		52.2
	$	**170.1**	$	165.5

Inventory balances are stated after inventory write-downs from cost to net realizable value. There were no inventory write-downs at March 31, 2018 or December 31, 2017.

3. Operating Loans

(millions of Canadian dollars, unaudited)		**As at March 31, 2018**		As at December 31, 2017
Operating loan facility	**$**	**110.0**	$	110.0
Letters of credit		**(10.8)**		(9.2)
Total available operating loan facility	**$**	**99.2**	$	100.8

On April 6, 2018, the maturity date of the Company's principal operating loan facility was extended from January 31, 2020 to April 6, 2022, and the terms of certain financial covenants were updated. The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization, and is based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. The facility has certain financial covenants including a covenant based on maximum debt to total capitalization of the Company. No amounts were drawn on the operating loan facility as at March 31, 2018 or December 31, 2017.

At March 31, 2018, the Company was in compliance with all covenants relating to its operating loans.

4. Employee Future Benefits

For the three months ended March 31, 2018, defined benefit plan actuarial gains of $3.3 million (before tax) were recognized in other comprehensive income, principally reflecting a higher discount rate used to value the net defined benefit plan obligations offset in part by the return generated on plan assets. For the three months ended March 31, 2017, the Company recognized no defined benefit pension plan actuarial gains or losses as the discount rate used to value the net defined benefit obligations was unchanged and the rate of return on plan assets was consistent with expectations.

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

	Defined Benefit Pension Plans	**Other Benefit Plans**
March 31, 2018	**3.6%**	**3.6%**
December 31, 2017	3.4%	3.4%
March 31, 2017	3.9%	3.9%
December 31, 2016	3.9%	3.9%

5. Financial Instruments

The Company's financial assets are measured at amortized cost. Financial liabilities are measured at amortized cost with the exception of certain derivative instruments, which are measured at fair value through profit and loss.

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

The three levels of the fair value hierarchy are:

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

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

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

At times, the Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, pulp prices, energy costs, and floating interest rates on long-term debt. As at March 31, 2018 and December 31, 2017, the Company had no derivative financial instruments outstanding.

6. Income Taxes

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2018	2017
Current	**$ (25.6)**	$ (11.0)
Deferred	**2.2**	2.7
Income tax expense	**$ (23.4)**	$ (8.3)

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

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2018	2017
Income tax expense at statutory rate – 27% (2017 – 26%)	**$ (23.7)**	$ (8.4)
Add:		
Entities with different income tax rates and other tax adjustments	**0.3**	0.1
Income tax expense	**$ (23.4)**	$ (8.3)

In addition to the amounts recorded to net income, a tax expense of $0.9 million was recorded in other comprehensive income for the three months ended March 31, 2018 in relation to the actuarial gains on defined benefit plans (three months ended March 31, 2017 - nil).

7. Earnings per Share and Normal Course Issuer Bid

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

	3 months ended March 31, 2018	2017
Weighted average number of common shares	**65,250,775**	66,627,848

On March 5, 2018, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,262,941 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2018. The renewed normal course issuer bid is set to expire on March 6, 2019. During the first quarter of 2018, the Company purchased 500 common shares at an average of $13.01 per common share, and paid an additional $0.1 million in relation to shares purchased in the prior year. As at March 31, 2018 and April 24, 2018, there were 65,250,759 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%.

8. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2018	2017
Accounts receivable	**$ (21.4)**	$ (28.1)
Inventories	**(4.6)**	13.0
Prepaid expenses and other	**(2.5)**	3.3
Accounts payable and accrued liabilities	**6.3**	11.6
Net increase in non-cash working capital	**$ (22.2)**	$ (0.2)

9. Segment Information

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

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

Information regarding the operations of each reportable segment is included in the following table.

(millions of Canadian dollars, unaudited)		Pulp		Paper		Unallocated		Elimination Adjustment		Consolidated
3 months ended March 31, 2018										
Sales to external customers	**$**	**317.5**	**$**	**42.0**	**$**	**0.2**	**$**	**-**	**$**	**359.7**
Sales to other segments		**28.9**		**-**		**-**		**(28.9)**		**-**
Operating income (loss)		**86.4**		**2.9**		**(4.2)**		**-**		**85.1**
Amortization		**18.1**		**1.1**		**-**		**-**		**19.2**
Capital expenditures[1]		**18.5**		**1.3**		**-**		**-**		**19.8**
Identifiable assets		**774.2**		**58.1**		**130.4**		**-**		**962.7**
3 months ended March 31, 2017										
Sales to external customers	$	267.4	$	41.6	$	0.2	$	-	$	309.2
Sales to other segments		21.3		-		-		(21.3)		-
Operating income (loss)		31.1		7.1		(3.0)		-		35.2
Amortization		17.9		0.9		-		-		18.8
Capital expenditures[1]		16.6		0.2		-		-		16.8
Identifiable assets		726.1		52.4		88.1		-		866.6

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

10. Related Party Transactions

For the three months ended March 31, 2018, the Company depended on Canfor to provide approximately 67% (three months ended March 31, 2017 - 64%) of its fibre supply as well as certain key business and administrative services. As a result of these relationships the Company considers its operations to be dependent on its ongoing relationship with Canfor. The transactions with Canfor are consistent with the transactions described in the December 31, 2017 audited consolidated financial statements of CPPI and are based on agreed upon amounts between the parties.

Transactions and payables to Canfor include purchases of wood chips, logs, hog fuel and administrative services. These are summarized below:

(millions of Canadian dollars, unaudited)		3 months ended March 31, **2018**		2017
Transactions				
Purchase of wood chips and other	**$**	**53.1**	$	41.8

(millions of Canadian dollars, unaudited)		**As at March 31, 2018**		As at December 31, 2017
Balance Sheet				
Included in accounts payable and accrued liabilities	**$**	**13.6**	$	13.1

11. Licella Pulp Joint Venture

On May 27, 2016, CPPI and Licella Fibre Fuel Pty Ltd. ("Licella") agreed to form a joint venture under the name Licella Pulp Joint Venture to investigate opportunities to integrate Licella's Catalytic Hydrothermal Reactor platform into CPPI's pulp mills to economically convert biomass into next generation biofuels and biochemicals. Licella is a subsidiary of Ignite Energy Resources Ltd. ("IER") an Australian energy technology development company.

Under IFRS 11, *Joint Arrangements*, the joint venture is classified as a joint operation and CPPI recognizes its assets, liabilities and transactions, including its share of those incurred jointly, in its consolidated financial statements. For the three months ended March 31, 2018, the Company's share of the joint venture's expenses was $0.5 million (March 31, 2017 - $0.3 million) which have been recognized in manufacturing and product costs. The Company is required to contribute the first $20.0 million of any funding requirements, including cash and non-cash contributions, to the joint venture, of which $2.2 million has been contributed as at March 31, 2018.

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.

Subsequent to period end, in April 2018, the Company received the first installment of funding in the amount of $1.9 million.

12. Subsequent Event

On April 24, 2018, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on May 14, 2018, to shareholders of record on May 7, 2018.