News Release

Canfor Pulp Products Inc.

FOR IMMEDIATE RELEASE

CANFOR PULP PRODUCTS INC. ANNOUNCES SECOND QUARTER 2017 RESULTS AND QUARTERLY DIVIDEND

July 26, 2017- Vancouver, B.C. - Canfor Pulp Products Inc. ("CPPI") (TSX: CFX) today reported net income of $20.2 million, or $0.31 per share, for the second quarter of 2017, compared to $24.1 million, or $0.36 per share, for the first quarter of 2017 and $2.2 million, or $0.03 per share, for the second quarter of 2016. For the six months ended June 30, 2017, the Company's net income was $44.3 million, or $0.67 per share, compared to $25.3 million, or $0.37 per share, for the six months ended June 30, 2016.

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

(millions of Canadian dollars, except per share amounts)	Q2 2017	Q1 2017	YTD 2017	Q2 2016	YTD 2016
Sales	**$ 280.9**	$ 309.2	**$ 590.1**	$ 257.2	$ 552.5
Operating income before amortization	**$ 50.0**	$ 54.0	**$ 104.0**	$ 22.1	$ 79.9
Operating income	**$ 31.5**	$ 35.2	**$ 66.7**	$ 5.2	$ 44.3
Net income	**$ 20.2**	$ 24.1	**$ 44.3**	$ 2.2	$ 25.3
Net income per share, basic and diluted	**$ 0.31**	$ 0.36	**$ 0.67**	$ 0.03	$ 0.37

The Company reported operating income of $31.5 million for the second quarter of 2017, down $3.7 million from $35.2 million reported for the first quarter of 2017. Solid increases in the Company's Northern Bleached Softwood Kraft ("NBSK") pulp unit sales realizations and higher paper unit sales realizations largely offset the impact of scheduled maintenance outages taken during the quarter at the Company's Northwood NBSK pulp mill and Taylor Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill.

NBSK pulp average list prices to China, as published by RISI, moved up by US$25 per tonne, reflecting the carry-over of strong demand from the previous quarter well into the spring maintenance period. Towards the end of the current quarter, demand started to show weakness in some regions, notably China. NBSK pulp unit sales realizations materially improved compared to the previous quarter, reflecting the strong pricing through most of the quarter, as well as quarter-over-quarter pricing on shipments of orders taken in the previous quarter, and a weaker Canadian dollar. BCTMP US-dollar list prices continued to trend positively through the second quarter of 2017 and sales realizations were further benefited from a weaker Canadian dollar. Lower energy revenue in the current quarter reflected both scheduled maintenance downtime and seasonally lower energy prices.

Pulp shipment and production volumes were down 18% and 13%, respectively, from the previous quarter principally reflecting approximately 40,000 tonnes of lower production available for sale, largely due to the Company's scheduled maintenance outages and, to a lesser extent, several operational upsets. Shipments for the first quarter of 2017 also included a 14,000 tonne vessel shipment that slipped from December 2016. Pulp unit manufacturing costs were up from the previous quarter principally as a result of the aforementioned outages, and, to a lesser extent, market-related increases in fibre costs, which more than offset seasonally lower energy prices and usage.

Operating income in the Company's paper segment at $6.6 million was down $0.5 million from the first quarter of 2017, as slightly higher paper unit sales realizations in the current quarter, mostly attributable to the weaker Canadian dollar, offset modest increases in paper unit manufacturing costs, which, for the most part, reflected significantly higher prices for slush pulp and, to a lesser extent, the timing of spend on maintenance.

During the second quarter of 2017, the Company negotiated new four-year collective labour agreements with its unions, which have been ratified by all union members.

Commenting on the Company's second quarter of 2017 results, CPPI's Chief Executive Officer, Don Kayne said, "The favourable market conditions allowed us to again generate solid financial results this quarter, despite our seasonally higher scheduled maintenance downtime. With our largest maintenance outages behind us, our focus is on optimizing our production performance and sales mix through the balance of the year in light of the additional global pulp capacity and the risk of potential pressure on pricing in the back half of the year." Commenting on Canfor Pulp's new labour agreements, Kayne said "We are pleased to have new agreements in place that provide labour stability."

Looking ahead, global pulp markets are currently anticipated to see lower operating rates in the second half of 2017 with the introduction of significant new pulp capacity in the latter part of 2017 and into 2018. For the month of July 2017, the Company announced a decrease of US$10 per tonne for NBSK pulp list prices to China, while NBSK pulp list prices to North America are unchanged from June 2017.

Results in the third quarter of 2017 will reflect a scheduled maintenance outage at the Intercontinental pulp mill, with a projected 8,000 tonnes of reduced NBSK pulp production, as well as higher associated maintenance costs and lower projected shipment volumes.

Subsequent to quarter end, Canfor Pulp announced plans to undertake two significant energy capital projects at its Northwood NBSK and Taylor BCTMP mills, at an estimated cost of $105 million.

On July 25, 2017, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on August 14, 2017 to the shareholders of record on August 7, 2017.

Additional Information and Conference Call

A conference call to discuss the second quarter's financial and operating results will be held on Thursday, July 27, 2017 at 8:00 AM Pacific time. To participate in the call, please dial Toll-Free 888-390-0546. For instant replay access until August 10, 2017, please dial 888-390-0541 and enter participant pass code 253091#. The conference call will be webcast live and will be available at www.canfor.com. This news release, the attached financial statements and a presentation used during the conference call can be accessed via the Company's website at http://www.canfor.com/investor-relations/overview.

Forward Looking Statements

Certain statements in this press release 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.

CPPI is a leading global supplier of pulp and paper products with operations in the central interior of British Columbia ("BC") employing approximately 1,300 people throughout the organization. Canfor Pulp owns and operates three mills in Prince George, BC with a total capacity of 1.1 million tonnes of Premium Reinforcing Northern Bleached Softwood Kraft Pulp and 140,000 tonnes of kraft paper, as well as one mill in Taylor, BC with an annual production capacity of 220,000 tonnes of Bleached Chemi-Thermo Mechanical Pulp ("BCTMP"). Canfor Pulp is the largest North American, and one of the largest global producers of market NBSK pulp. CPPI shares are traded on the Toronto Stock Exchange under the symbol CFX.

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Canfor Pulp Products Inc.
Second Quarter 2017
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 June 30, 2017 relative to the quarters ended March 31, 2017 and June 30, 2016, and the financial position of the Company at June 30, 2017. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended, June 30, 2017 and 2016, as well as the 2016 annual MD&A and the 2016 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2016 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income (Loss) before Amortization which CPPI considers to be a relevant indicator for measuring trends in the Company's performance and its ability to generate funds to meet its debt service and capital expenditure requirements, and to pay dividends. Reference is also made to Adjusted Net Income (Loss) (calculated as Net Income (Loss) less specific items affecting comparability with prior periods) and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, CPPI's Operating Income (Loss) before Amortization, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income (Loss) before Amortization to Operating Income (Loss) and Adjusted Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in this MD&A. Throughout this discussion reference is made to the current quarter which refers to the results for the second quarter of 2017.

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 July 25, 2017.

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.

SECOND QUARTER 2017 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q2 2017	Q1 2017	YTD 2017	Q2 2016	YTD 2016
Operating income (loss) by segment:					
Pulp	**$ 28.0**	$ 31.1	**$ 59.1**	$ 1.8	$ 34.8
Paper	**$ 6.6**	$ 7.1	**$ 13.7**	$ 5.5	$ 14.4
Unallocated	**$ (3.1)**	$ (3.0)	**$ (6.1)**	$ (2.1)	$ (4.9)
Total operating income	**$ 31.5**	$ 35.2	**$ 66.7**	$ 5.2	$ 44.3
Add: Amortization[1]	**$ 18.5**	$ 18.8	**$ 37.3**	$ 16.9	$ 35.6
Total operating income before amortization	**$ 50.0**	$ 54.0	**$ 104.0**	$ 22.1	$ 79.9
Add (deduct):					
Working capital movements	**$ (2.0)**	$ (0.2)	**$ (2.2)**	$ 31.9	$ 19.1
Defined benefit pension plan contributions, net	**$ (1.7)**	$ (1.5)	**$ (3.2)**	$ (1.4)	$ (2.6)
Income taxes paid, net	**$ (0.9)**	$ (0.2)	**$ (1.1)**	$ (2.6)	$ (14.2)
Other operating cash flows, net	**$ (0.9)**	$ (1.4)	**$ (2.3)**	$ (1.5)	$ (5.4)
Cash from operating activities	**$ 44.5**	$ 50.7	**$ 95.2**	$ 48.5	$ 76.8
Add (deduct):					
Dividends paid	**$ (4.1)**	$ (4.2)	**$ (8.3)**	$ (4.3)	$ (8.6)
Finance expenses paid	**$ (0.7)**	$ (0.7)	**$ (1.4)**	$ (0.5)	$ (1.3)
Capital additions, net	**$ (19.2)**	$ (16.8)	**$ (36.0)**	$ (18.6)	$ (31.7)
Advances to Licella	$ -	$ -	**$ -**	$ (3.5)	$ (3.5)
Share purchases	**$ (7.4)**	$ (2.8)	**$ (10.2)**	$ (19.4)	$ (24.4)
Other, net	**$ 0.1**	$ 0.2	**$ 0.3**	$ -	$ 0.2
Change in cash / operating loans	**$ 13.2**	$ 26.4	**$ 39.6**	$ 2.2	$ 7.5
Net income	**$ 20.2**	$ 24.1	**$ 44.3**	$ 2.2	$ 25.3
Net income per share (EPS)	**$ 0.31**	$ 0.36	**$ 0.67**	$ 0.03	$ 0.37
ROIC – Consolidated period-to-date[2]	**4.5%**	5.3%	**9.8%**	0.8%	5.7%
Average exchange rate (US$ per C$1.00)[3]	**$ 0.744**	$ 0.756	**$ 0.750**	$ 0.776	0.752

[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).

The Company reported operating income of $31.5 million for the second quarter of 2017, down $3.7 million from $35.2 million reported for the first quarter of 2017. Solid increases in NBSK pulp and BCTMP unit sales realizations as well as higher paper unit sales realizations, largely offset the impact of scheduled maintenance outages taken during the quarter at the Northwood NBSK pulp mill and Taylor BCTMP mill. NBSK pulp average US-dollar list prices to China increased quarter-over-quarter, reflecting the carry-over of strong demand from the previous quarter well into the spring major maintenance period. Towards the end of the quarter, demand had started to show weakness in some regions, notably China. Pulp production was down 13% reflecting approximately 40,000 tonnes of lower production available for sale, related to the aforementioned outages and, to a lesser extent, several operational upsets. Shipments for the first quarter of 2017 also included a 14,000 tonne vessel shipment that slipped from December 2016. The reduced pulp production in the current quarter was the primary driver for higher pulp unit manufacturing costs and lower energy revenues when compared to the first quarter of 2017.

Compared to the second quarter of 2016, operating income was up $26.3 million principally due to notable increases in NBSK pulp and BCTMP unit sales realizations, reflecting higher US-dollar market prices combined with a weaker Canadian dollar. These increases were partially offset by increased pulp and paper unit manufacturing costs, principally due to higher fibre costs in the current quarter, and to a lesser extent, higher chemical pricing and lower pulp shipments. Similar scheduled maintenance outages were taken in both periods.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)		**Q2 2017**		Q1 2017		**YTD 2017**		Q2 2016		YTD 2016
Sales	**$**	**236.2**	$	267.4	**$**	**503.6**	$	210.6	$	460.4
Operating income before amortization[4]	**$**	**45.5**	$	49.0	**$**	**94.5**	$	17.8	$	68.5
Operating income	**$**	**28.0**	$	31.1	**$**	**59.1**	$	1.8	$	34.8
Average NBSK pulp price delivered to China – US$[5]	**$**	**670**	$	645	**$**	**658**	$	617	$	603
Average NBSK pulp price delivered to China – Cdn$[5]	**$**	**901**	$	853	**$**	**877**	$	795	$	802
Production – pulp (000 mt)		**275.2**		317.1		**592.3**		279.6		601.4
Shipments – pulp (000 mt)		**276.3**		337.1		**613.4**		287.2		606.3

[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

After two successive quarters of solid gains, global softwood pulp markets plateaued in the second quarter of 2017. Pulp softwood inventories as at the end of May 2017, were in the balanced range at 29 days of supply, a decrease of one day from February 2017[6] (market conditions are generally considered balanced when inventories are in the 27-30 days of supply range). By the end of the second quarter, however, demand had weakened in some regions, particularly China.

Global shipments of bleached softwood pulp increased by 2.5%, for the first five months of 2017 when compared to the first five months of 2016, driven primarily by increased year-to-date shipments to North America and Asian countries, including China[7].

Sales

The Company's pulp shipments for the second quarter of 2017 were 276,300 tonnes, down 60,800 tonnes, or 18%, from the previous quarter and down 10,900 tonnes, or 4%, from the second quarter of 2016. When compared to the previous quarter, the decrease in pulp shipments for the most part reflected lower pulp production in the current quarter, combined with the impact of the slippage of a 14,000 tonne vessel shipment to Asia from December 2016 into January 2017 recognized in the previous quarter. The modest reduction in pulp shipments when compared to the second quarter of 2016, primarily reflected a drawdown of inventory in the second quarter of 2016.

The average China US-dollar NBSK pulp list price of US$670 per tonne, as published by RISI, was up US$25 per tonne, or 4%, from the first quarter of 2017. Average NBSK pulp unit sales realizations materially improved compared to the previous quarter, reflecting the strong pricing through most of the quarter, as well as quarter-over-quarter pricing on shipments of orders taken in the previous quarter. This was combined with the favourable impact of a 1 cent or 2% weaker Canadian dollar. The continued positive momentum of BCTMP markets in the second quarter when compared to the first quarter of 2017, combined with the weaker Canadian dollar, had a notable favourable impact on average BCTMP unit sales realizations.

[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.

Compared to the second quarter of 2016, the average China US-dollar NBSK pulp list price in the current quarter of 2017 was up US$53 per tonne, or 9%. The Company's average NBSK pulp unit sales realizations were materially higher than the second quarter of 2016, reflecting higher market prices to China combined with a 3 cent or 4% weakening of the Canadian dollar, offset in part by increases in customer discounts. BCTMP unit sales realizations were considerably higher compared to the second quarter of 2016, reflecting the growth in BCTMP market demand and a weaker Canadian dollar.

Compared to the first quarter of 2017, energy revenues were down, reflecting the seasonally lower power generation due to the aforementioned scheduled maintenance outages in the quarter, combined with seasonally lower energy prices. Energy revenues in the current quarter were broadly in line with the second quarter of 2016. Energy revenues are anticipated to return to more normalized levels in the third quarter of 2017.

Operations

Pulp production in the second quarter of 2017 at 275,200 tonnes was down 41,900 tonnes, or 13%, from the first quarter of 2017 and broadly in line with the second quarter of 2016. During the second quarter of 2017, the Company completed scheduled maintenance outages at the Northwood NBSK pulp mill as well as at the BCTMP Taylor mill, which when combined with several operational upsets, reduced pulp production by approximately 40,000 tonnes. There were no maintenance outages in the previous quarter of 2017, while in the second quarter of 2016, the Company completed major scheduled outages at the Northwood and Intercontinental NBSK pulp mills and a minor scheduled maintenance outage at the Prince George NBSK pulp mill, which also reduced pulp production by approximately 40,000 tonnes.

Pulp unit manufacturing costs were materially higher in the current quarter compared to the first quarter of 2017, principally reflecting costs associated with the aforementioned scheduled maintenance outages, offset somewhat by seasonally lower energy prices and usage in the current period. Fibre costs were higher compared to the previous quarter as increased prices for sawmill residual chips combined with a seasonal improvement in chip quality more than offset a lower proportion of higher-cost whole log chips.

Compared to the second 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, marginally offset by the timing of certain maintenance spend. Increased fibre costs in the current period largely reflected the higher market prices for sawmill residual chips, and to a lesser degree, higher delivered freight costs.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars unless otherwise noted)	**Q2 2017**	Q1 2017	**YTD 2017**	Q2 2016	YTD 2016
Sales	**$ 44.6**	$ 41.6	**$ 86.2**	$ 45.5	$ 90.7
Operating income before amortization[8]	**$ 7.6**	$ 8.0	**$ 15.6**	$ 6.4	$ 16.3
Operating income	**$ 6.6**	$ 7.1	**$ 13.7**	$ 5.5	$ 14.4
Production – paper (000 mt)	**33.6**	34.6	**68.2**	32.1	67.4
Shipments – paper (000 mt)	**35.5**	33.7	**69.2**	38.5	73.4

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

Markets

Global kraft paper markets were relatively stable through the second quarter of 2017. The positive pricing momentum and demand from North American markets experienced in the first quarter of 2017 continued through the current quarter, while demand in Asia was also in line with the previous quarter.

Sales

The Company's paper shipments in the second quarter of 2017 at 35,500 tonnes, were up 1,800 tonnes from the previous quarter and down 3,000 tonnes when compared to the same quarter in 2016. The increase in paper shipments over the first quarter of 2017 largely reflects the continued strong demand in North American paper markets in the current quarter. The decrease in paper shipments from the second quarter of 2016, is principally the result of drawdown of inventory in the second quarter of 2016.

Paper unit sales realizations in the second quarter of 2017 were up slightly from the previous quarter primarily reflecting the 2% weaker Canadian dollar. Compared to the same quarter of 2016, paper unit sales realizations were moderately higher, due to the positive impact of the 4% weaker Canadian dollar as well as a higher proportion of shipments to the North American market and a favourable change in sales mix.

Operations

Paper production for the second quarter of 2017 at 33,600 tonnes was relatively consistent with the first quarter of 2017 and up 1,500 tonnes when compared to the same quarter of 2016. The increase in paper production from the second quarter of 2016 was largely due to a five-day scheduled maintenance outage in the comparative period. No maintenance outages occurred in the current quarter or in the first quarter of 2017.

Paper unit manufacturing costs saw moderate increases compared to both the first quarter of 2017 and the second quarter of 2016. The increases compared to the prior quarter were primarily driven by significantly higher slush pulp costs and, to a lesser extent, increases in maintenance spend and higher chemical costs in the current quarter. Compared to the second quarter of 2016, the increases in paper unit manufacturing costs, principally reflected the higher slush pulp costs in the current quarter.

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)	Q2 2017	Q1 2017	YTD 2017	Q2 2016	YTD 2016
Corporate costs	**$ (3.1)**	$ (3.0)	**$ (6.1)**	$ (2.1)	$ (4.9)
Finance expense, net	**$ (1.7)**	$ (1.8)	**$ (3.5)**	$ (1.5)	$ (3.1)
Other income (expense), net	**$ (2.5)**	$ (1.0)	**$ (3.5)**	$ 0.5	$ (6.1)

Corporate costs at $3.1 million for the second quarter of 2017, were in line with the first quarter of 2017 and up compared with the second quarter of 2016. The increase compared to the second quarter of 2016 primarily related to the recognition of carbon offset credits in the comparative quarter.

Net finance expense for the second quarter of 2017 at $1.7 million was broadly in line with the previous quarter and was $0.2 million higher than the second quarter of 2016.

Other expenses, net of $2.5 million in the second quarter of 2017 principally related to unfavourable foreign exchange movements on US-dollar denominated working capital balances. In the comparable periods, foreign exchange movements were more modest.

Other Comprehensive Income (Loss)

In the second quarter of 2017, the Company recorded an after-tax loss of $8.0 million in relation to changes in the valuation of the Company's employee future benefit plans. Compared to the first quarter of 2017, the loss principally reflected a 0.4% decrease in the discount rate used to value the employee future benefit plans offset by the return generated on plan assets. This compared to an after-tax loss of $9.4 million in the second quarter of 2016, largely reflecting changes in the discount rate used to value the employee future benefit plans. There were no changes to the discount rate or rate of return on assets in the first quarter of 2017.

During the second quarter of 2017, the Company purchased $18.0 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 $1.1 million were recognized in Other Comprehensive Income (Loss) principally reflecting the difference in the annuity rate (which is comparable to solvency rates) as compared to the discount rate used to value the pension obligations on a going concern basis. Total annuities purchased by the Company increased to $57.8 million, representing approximately 34% of defined benefit pension plan liabilities. A further 35% was partially hedged against changes in future discount rates through the plan's investment in debt securities.

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)	Q2 2017	Q1 2017	YTD 2017	Q2 2016	YTD 2016
Increase (decrease) in cash and cash equivalents	**$ 13.2**	$ 26.4	**$ 39.6**	$ 2.2	$ 7.5
Operating activities	**$ 44.5**	$ 50.7	**$ 95.2**	$ 48.5	$ 76.8
Financing activities	**$ (12.2)**	$ (7.7)	**$ (19.9)**	$ (24.2)	$ (34.3)
Investing activities	**$ (19.1)**	$ (16.6)	**$ (35.7)**	$ (22.1)	$ (35.0)
Ratio of current assets to current liabilities			**2.5 : 1**		2.2 : 1
Net debt to capitalization			**(9.0)%**		5.2%
ROIC – Consolidated period-to-date	**4.5%**	5.3%	**9.8%**	0.8%	5.7%

Changes in Financial Position

Cash generated from operating activities was $44.5 million in the second quarter of 2017, down $6.2 million from the previous quarter and down $4.0 million from the second quarter of 2016. The decrease in operating cash flows compared to the immediately preceding quarter principally related to lower cash earnings in the current quarter with the aforementioned scheduled maintenance outages. Further contributing to the lower operating cash was unfavourable movements in non-cash working capital balances, primarily due to higher finished inventories offset in part by lower trade accounts receivable at the end of the period as a result of slowing pulp demand towards the end of the quarter. Compared to the second quarter of 2016, higher cash earnings and lower income tax payments in the current quarter were more than offset by the favourable movements in non-cash working capital balances realized in the comparative quarter, principally driven by lower trade accounts receivable and reduced finished inventories.

Cash used for financing activities was $12.2 million in the second quarter of 2017, up $4.5 million from the previous quarter and down $12.0 million from the second quarter of 2016. Cash used for financing activities in the current quarter included the Company's quarterly dividend payment of $4.1 million ($0.0625 per share) as well as $7.4 million for shares purchased under the Company's normal course issuer bid. This compared to $2.8 million and $19.4 million paid for shares purchased in the first quarter of 2017 and second quarter of 2016, respectively (see further discussion of the shares purchased under the normal course issuer bid in the following "Liquidity and Financial Requirements" section).

Cash used for investing activities of $19.1 million in the current quarter primarily related to maintenance-of-business capital associated with the aforementioned maintenance outages during the quarter and, to a lesser extent, capital expenditures associated with various energy and capital improvement projects.

Subsequent to quarter end, Canfor Pulp announced plans to undertake two significant energy capital projects at its Northwood NBSK and Taylor BCTMP mills, at an estimated cost of $105 million.

Liquidity and Financial Requirements

At June 30, 2017, the Company had a $110.0 million unsecured operating loan facility which was unused, except for $9.0 million reserved for several standby letters of credit, leaving $101.0 million available and undrawn on the operating facility.

CPPI has $50.0 million of floating interest rate term debt.

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

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. During the second quarter of 2017, CPPI purchased 607,900 common shares for $7.5 million (an average of $12.34 per common share), of which $7.4 million was paid in the period, with the balance paid in early July. In the first half of 2017, CPPI purchased 872,103 common shares for $10.5 million (an average of $12.04 per common share).

As a result of the Company's share repurchases in the current quarter, Canfor's ownership interest in CPPI increased to 54.4% at June 30, 2017, up 0.5% from the end of the prior quarter. As at July 25, 2017, Canfor's ownership interest in CPPI was 54.5% reflecting share repurchases subsequent to June 30, 2017. The Company may purchase more shares through the balance of 2017 subject to the terms of the normal course issuer bid.

Dividends

On July 25, 2017, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on August 14, 2017 to the shareholders of record on August 7, 2017.

Collective Agreements with Labour Unions

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

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.

OUTLOOK

Pulp Markets

Global pulp markets are currently anticipated to see lower operating rates in the second half of 2017, with the introduction of significant new pulp capacity in the latter part of 2017 and into 2018.

For the month of July 2017, the Company announced a decrease of US$10 per tonne for NBSK pulp list prices to China, while NBSK pulp list prices to North America are unchanged from June 2017.

Results in the third quarter of 2017 will reflect a scheduled maintenance outage at the Intercontinental pulp mill, with a projected 8,000 tonnes of reduced NBSK pulp production, as well as higher associated maintenance costs and lower projected shipment volumes.

Paper Markets

Bleached kraft paper markets and prices are projected to remain relatively unchanged in the third quarter of 2017.

OUTSTANDING SHARES

At July 25, 2017, based on trade date, there were 65,661,340 common shares of the Company outstanding.

CRITICAL ACCOUNTING ESTIMATES

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

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, *Revenue from Contracts with Customers*, which will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company has performed a preliminary assessment of the impact of the new standard, and currently anticipates no significant impact on its financial statements, with the assessment to be finalized in the second half of 2017.

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2017, 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 2016 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

	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Sales and income (millions of Canadian dollars)								
Sales	**$ 280.9**	$ 309.2	$ 257.8	$ 291.6	$ 257.2	$ 295.3	$ 330.8	$ 294.1
Operating income before amortization[9]	**$ 50.0**	$ 54.0	$ 42.1	$ 50.0	$ 22.1	$ 57.8	$ 56.2	$ 58.7
Operating income	**$ 31.5**	$ 35.2	$ 22.9	$ 31.0	$ 5.2	$ 39.1	$ 38.6	$ 42.3
Net income	**$ 20.2**	$ 24.1	$ 10.1	$ 22.4	$ 2.2	$ 23.1	$ 29.7	$ 31.2
Per common share (Canadian dollars)								
Net income – basic and diluted	**$ 0.31**	$ 0.36	$ 0.15	$ 0.34	$ 0.03	$ 0.34	$ 0.43	$ 0.45
Book value[10]	**$ 7.63**	$ 7.55	$ 7.27	$ 7.14	$ 6.88	$ 7.15	$ 6.96	$ 6.65
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)	**608**	264	**-**	**-**	1,840	413	693	557
Shares repurchased (millions of Canadian dollars)	**$ 7.5**	$ 3.0	$ **-**	$ **-**	$ 19.5	$ 4.9	$ 9.7	$ 6.9
Statistics								
Pulp shipments (000 mt)	**276.3**	337.1	275.4	319.8	287.2	319.1	356.2	307.4
Paper shipments (000 mt)	**35.5**	33.7	33.6	35.5	38.5	34.9	35.4	32.1
Average exchange rate – US$/Cdn$	**$ 0.744**	$ 0.756	$ 0.750	$ 0.766	$ 0.776	$ 0.728	$ 0.749	$ 0.764
Average NBSK pulp list price delivered to China (US$)	**$ 670**	$ 645	$ 595	$ 595	$ 617	$ 590	$ 600	$ 638

[9] Amortization includes amortization of certain capitalized major maintenance costs.
[10] 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)	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Net income, as reported	**$ 20.2**	$ 24.1	$ 10.1	$ 22.4	$ 2.2	$ 23.1	$ 29.7	$ 31.2
(Gain) loss on derivative financial instruments	**$ -**	$ -	$ -	$ -	$ -	$ -	$ (0.7)	$ 3.6
Net impact of above items	**$ -**	$ -	$ -	$ -	$ -	$ -	$ (0.7)	$ 3.6
Adjusted net income	**$ 20.2**	$ 24.1	$ 10.1	$ 22.4	$ 2.2	$ 23.1	$ 29.0	$ 34.8
Net income per share (EPS), as reported[11]	**$ 0.31**	$ 0.36	$ 0.15	$ 0.34	$ 0.03	$ 0.34	$ 0.43	$ 0.45
Net impact of above items per share[11]	**$ -**	$ -	$ -	$ -	$ -	$ -	$ (0.01)	$ 0.05
Adjusted net income per share[11]	**$ 0.31**	$ 0.36	$ 0.15	$ 0.34	$ 0.03	$ 0.34	$ 0.42	$ 0.50

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

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at June 30, 2017**		As at December 31, 2016
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**91.5**	$	51.9
Accounts receivable - Trade		**94.9**		75.9
- Other		**14.0**		16.8
Inventories (Note 2)		**164.1**		166.5
Prepaid expenses		**3.1**		5.1
Total current assets		**367.6**		316.2
Property, plant and equipment		**513.7**		518.7
Other long-term assets		**3.3**		2.2
Total assets	**$**	**884.6**	$	837.1
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**146.9**	$	125.4
Total current liabilities		**146.9**		125.4
Long-term debt		**50.0**		50.0
Retirement benefit obligations (Note 4)		**121.3**		109.1
Other long-term provisions		**6.2**		6.2
Deferred income taxes, net		**58.0**		61.7
Total liabilities	**$**	**382.4**	$	352.4
EQUITY				
Share capital	**$**	**485.2**	$	491.6
Retained earnings (deficit)		**17.0**		(6.9)
Total equity	**$**	**502.2**	$	484.7
Total liabilities and equity	**$**	**884.6**	$	837.1

Subsequent Event (Note 11)

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

APPROVED BY THE BOARD

"S.E. Bracken-Horrocks" *"M.J. Korenberg"*

Director, S.E. Bracken-Horrocks Director, M.J. Korenberg

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended June 30, **2017**	3 months ended June 30, 2016	6 months ended June 30, **2017**	6 months ended June 30, 2016
Sales	**$ 280.9**	$ 257.2	**$ 590.1**	$ 552.5
Costs and expenses				
Manufacturing and product costs	**187.5**	190.4	**393.6**	378.2
Freight and other distribution costs	**36.8**	38.0	**78.8**	80.5
Amortization	**18.5**	16.9	**37.3**	35.6
Selling and administration costs	**6.6**	6.7	**13.7**	13.9
	249.4	252.0	**523.4**	508.2
Operating income	**31.5**	5.2	**66.7**	44.3
Finance expense, net	**(1.7)**	(1.5)	**(3.5)**	(3.1)
Other income (expense), net	**(2.5)**	0.5	**(3.5)**	(6.1)
Net income before income taxes	**27.3**	4.2	**59.7**	35.1
Income tax expense (Note 6)	**(7.1)**	(2.0)	**(15.4)**	(9.8)
Net income	**$ 20.2**	$ 2.2	**$ 44.3**	$ 25.3
Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 7)	**$ 0.31**	$ 0.03	**$ 0.67**	$ 0.37

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 June 30, **2017**	2016	6 months ended June 30, **2017**	2016
Net income	**$ 20.2**	$ 2.2	**$ 44.3**	$ 25.3
Other comprehensive loss				
Items that will not be recycled through net income:				
Defined benefit plan actuarial losses (Note 4)	**(10.8)**	(12.8)	**(10.8)**	(17.5)
Income tax recovery on defined benefit plan actuarial losses (Note 6)	**2.8**	3.4	**2.8**	4.6
Other comprehensive loss, net of tax	**(8.0)**	(9.4)	**(8.0)**	(12.9)
Total comprehensive income (loss)	**$ 12.2**	$ (7.2)	**$ 36.3**	$ 12.4

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2017**	2016	6 months ended June 30, **2017**	2016
Share capital				
Balance at beginning of period	**$ 489.7**	$ 505.2	**$ 491.6**	$ 508.2
Share purchases (Note 7)	**(4.5)**	(13.6)	**(6.4)**	(16.6)
Balance at end of period	**$ 485.2**	$ 491.6	**$ 485.2**	$ 491.6
Retained earnings (deficit)				
Balance at beginning of period	**$ 11.9**	$ (15.1)	**$ (6.9)**	$ (28.5)
Net income	**20.2**	2.2	**44.3**	25.3
Defined benefit plan actuarial losses, net of tax	**(8.0)**	(9.4)	**(8.0)**	(12.9)
Dividends declared	**(4.1)**	(4.3)	**(8.3)**	(8.6)
Share purchases (Note 7)	**(3.0)**	(5.9)	**(4.1)**	(7.8)
Balance at end of period	**$ 17.0**	$ (32.5)	**$ 17.0**	$ (32.5)
Total equity	**$ 502.2**	$ 459.1	**$ 502.2**	$ 459.1

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 June 30, 2017	3 months ended June 30, 2016	6 months ended June 30, 2017	6 months ended June 30, 2016
Cash generated from (used in):				
Operating activities				
Net income	**$ 20.2**	$ 2.2	**$ 44.3**	$ 25.3
Items not affecting cash:				
Amortization	**18.5**	16.9	**37.3**	35.6
Income tax expense	**7.1**	2.0	**15.4**	9.8
Employee future benefits	**1.3**	1.2	**2.6**	2.5
Finance expense, net	**1.7**	1.5	**3.5**	3.1
Other, net	**0.3**	(3.2)	**(1.4)**	(1.8)
Defined benefit plan contributions, net	**(1.7)**	(1.4)	**(3.2)**	(2.6)
Income taxes paid, net	**(0.9)**	(2.6)	**(1.1)**	(14.2)
	46.5	16.6	**97.4**	57.7
Net change in non-cash working capital (Note 8)	**(2.0)**	31.9	**(2.2)**	19.1
	44.5	48.5	**95.2**	76.8
Financing activities				
Finance expenses paid	**(0.7)**	(0.5)	**(1.4)**	(1.3)
Dividends paid	**(4.1)**	(4.3)	**(8.3)**	(8.6)
Share purchases (Note 7)	**(7.4)**	(19.4)	**(10.2)**	(24.4)
	(12.2)	(24.2)	**(19.9)**	(34.3)
Investing activities				
Additions to property, plant and equipment, net	**(19.2)**	(18.6)	**(36.0)**	(31.7)
Other, net	**0.1**	(3.5)	**0.3**	(3.3)
	(19.1)	(22.1)	**(35.7)**	(35.0)
Increase in cash and cash equivalents*	**13.2**	2.2	**39.6**	7.5
Cash and cash equivalents at beginning of period*	**78.3**	22.8	**51.9**	17.5
Cash and cash equivalents at end of period*	**$ 91.5**	$ 25.0	**$ 91.5**	$ 25.0

*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 July 25, 2017, Canfor Corporation ("Canfor") held a 54.5% 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, 2016, available at www.canfor.com or www.sedar.com.

Effective January 1, 2017, the Company has adopted the amendments to IAS 7 *Statement of Cash Flows*, which clarified disclosures requirements associated with cash and non-cash changes in liabilities from financing activities. The adoption of this amendment has had no impact on the Company's disclosures in the financial statements.

These financial statements were authorized for issue by the Company's Board of Directors on July 25, 2017.

Accounting Standards Issued and Not Applied

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, *Revenue from Contracts with Customers*, which will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2018. The Company has performed a preliminary assessment of the impact of the new standard, and currently anticipates no significant impact on its financial statements, with the assessment to be finalized in the second half of 2017.

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

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

2. Inventories

(millions of Canadian dollars, unaudited)	**As at June 30, 2017**	As at December 31, 2016
Pulp	**$ 74.6**	$ 84.2
Paper	**15.1**	15.7
Wood chips and logs	**21.3**	15.4
Materials and supplies	**53.1**	51.2
	$ 164.1	$ 166.5

Inventory balances are stated after inventory write-downs from cost to net realizable value. There were no inventory write-downs at June 30, 2017 or December 31, 2016.

3. Operating Loans

(millions of Canadian dollars, unaudited)	**As at June 30, 2017**	As at December 31, 2016
Operating loan facility	**$ 110.0**	$ 110.0
Letters of credit	**(9.0)**	(9.3)
Total available operating loan facility	**$ 101.0**	$ 100.7

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization, and is based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. The facility has certain financial covenants including a covenant based on maximum debt to total capitalization of the Company. No amounts were drawn on the operating loan facility as at June 30, 2017 (December 31, 2016 - nil).

At June 30, 2017, $9.0 million of letters of credit outstanding are covered under the general operating loan facility, and the Company was in compliance with all covenants relating to its operating loans.

4. Employee Future Benefits

For the three and six months ended June 30, 2017, defined benefit plan actuarial losses of $10.8 million (before tax) were recognized in other comprehensive income (loss), principally reflecting a lower discount rate used to value the net defined benefit plan obligations offset in part by the return generated on plan assets. For the three and six months ended June 30, 2016, the Company recognized before tax actuarial losses in other comprehensive income (loss) of $12.8 million and $17.5 million, respectively.

At June 30, 2017, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities for the Company's defined benefit pension plans would decrease the accrued defined benefit pension obligation by an estimated $16.6 million, of which 34% (December 31, 2016 – 24%) 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 35% (December 31, 2016 – 46%) is partially hedged through the plan's investment in debt securities. For the Company's other benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would decrease the accrued benefit obligation by an estimated $12.0 million.

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

	Defined Benefit Pension Plans	**Other Benefit Plans**
June 30, 2017	**3.5%**	**3.5%**
March 31, 2017	3.9%	3.9%
December 31, 2016	3.9%	3.9%
June 30, 2016	3.5%	3.5%
March 31, 2016	4.0%	4.0%
December 31, 2015	4.1%	4.1%

In the second quarter of 2017, the Company purchased $18.0 million of buy-in annuities through its defined benefit pension plans, increasing total annuities purchased to $57.8 million. Future cash flows from the annuities will match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations. Transaction costs of $1.1 million related to the purchase were recognized in other comprehensive income (loss) in the second quarter of 2017, principally reflecting the difference between the annuity rate (which is comparable to solvency rates) compared to the discount rate used to value the obligations on a going concern basis.

5. Financial Instruments

CPPI's cash and cash equivalents, accounts receivable, loans and advances, operating loans, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost subsequent to initial recognition. At June 30, 2017, the fair value of the Company's long-term debt approximates its amortized cost of $50.0 million (December 31, 2016 - $50.0 million).

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

The three levels of the fair value hierarchy are:

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

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

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

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 June 30, 2017 and December 31, 2016, the Company had no derivative financial instruments outstanding.

6. Income Taxes

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2017**	2016	**2017**	2016
Current	**$ (5.3)**	$ -	**$ (16.3)**	$ (10.0)
Deferred	**(1.8)**	(2.0)	**0.9**	0.2
Income tax expense	**$ (7.1)**	$ (2.0)	**$ (15.4)**	$ (9.8)

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

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2017**	2016	**2017**	2016
Income tax expense at statutory rate of 26.0%	**$ (7.1)**	$ (1.1)	**$ (15.5)**	$ (9.1)
Add (deduct):				
Entities with different income tax rates and other tax adjustments	**-**	(0.9)	**0.1**	(0.7)
Income tax expense	**$ (7.1)**	$ (2.0)	**$ (15.4)**	$ (9.8)

In addition to the amounts recorded to net income, a tax recovery of $2.8 million was recorded in other comprehensive income for the three and six months ended June 30, 2017 in relation to the actuarial losses on defined benefit plans (three and six months ended June 30, 2016 – recovery of $3.4 million and $4.6 million, respectively).

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 June 30,		6 months ended June 30,	
	2017	2016	**2017**	2016
Weighted average number of common shares	**66,181,210**	67,815,261	**66,404,529**	68,340,408

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. During the second quarter of 2017, CPPI purchased 607,900 common shares for $7.5 million (an average of $12.34 per common share), of which $7.4 million was paid in the period, with the balance paid in early July. In the first half of 2017, CPPI purchased 872,103 common shares for $10.5 million (an average of $12.04 per common share). As at June 30, 2017, there were 65,827,265 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.4%.

Subsequent to quarter end, CPPI purchased 165,925 common shares for $2.1 million (an average of $12.66 per common share). As at July 25, 2017, based on trade date, there were 65,661,340 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.5%.

8. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended June 30, 2017	2016	6 months ended June 30, 2017	2016
Accounts receivable	**$ 11.1**	$ 18.0	**$ (16.1)**	$ 20.5
Inventories	**(10.9)**	5.4	**2.1**	(4.5)
Prepaid expenses	**(0.4)**	0.4	**2.0**	(0.7)
Accounts payable and accrued liabilities	**(1.8)**	8.1	**9.8**	3.8
Net decrease (increase) in non-cash working capital	**$ (2.0)**	$ 31.9	**$ (2.2)**	$ 19.1

9. Segment Information

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

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

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 June 30, 2017					
Sales to external customers	**$ 236.2**	**$ 44.6**	**$ 0.1**	**$ -**	**$ 280.9**
Sales to other segments	**23.6**	**-**	**-**	**(23.6)**	**-**
Operating income (loss)	**28.0**	**6.6**	**(3.1)**	**-**	**31.5**
Amortization	**17.5**	**1.0**	**-**	**-**	**18.5**
Capital expenditures[1]	**18.4**	**0.1**	**0.7**	**-**	**19.2**
3 months ended June 30, 2016					
Sales to external customers	$ 210.6	$ 45.5	$ 1.1	$ -	$ 257.2
Sales to other segments	19.9	-	-	(19.9)	-
Operating income (loss)	1.8	5.5	(2.1)	-	5.2
Amortization	16.0	0.9	-	-	16.9
Capital expenditures[1]	18.3	0.3	-	-	18.6
6 months ended June 30, 2017					
Sales to external customers	**$ 503.6**	**$ 86.2**	**$ 0.3**	**$ -**	**$ 590.1**
Sales to other segments	**45.7**	**-**	**-**	**(45.7)**	**-**
Operating income (loss)	**59.1**	**13.7**	**(6.1)**	**-**	**66.7**
Amortization	**35.4**	**1.9**	**-**	**-**	**37.3**
Capital expenditures[1]	**34.6**	**0.3**	**1.1**	**-**	**36.0**
Identifiable assets	**729.9**	**51.6**	**103.1**	**-**	**884.6**
6 months ended June 30, 2016					
Sales to external customers	$ 460.4	$ 90.7	$ 1.4	$ -	$ 552.5
Sales to other segments	42.7	-	-	(42.7)	-
Operating income (loss)	34.8	14.4	(4.9)	-	44.3
Amortization	33.7	1.9	-	-	35.6
Capital expenditures[1]	31.2	0.5	-	-	31.7
Identifiable assets	729.7	59.0	39.3	-	828.0

[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 six months ended June 30, 2017, the Company depended on Canfor to provide approximately 62% (six months ended June 30, 2016 - 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, 2016 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 June 30, **2017**	3 months ended June 30, 2016	6 months ended June 30, **2017**	6 months ended June 30, 2016
Transactions				
Purchase of wood chips and other	**$ 45.9**	$ 35.9	**$ 87.7**	$ 81.9

(millions of Canadian dollars, unaudited)	**As at June 30, 2017**	As at December 31, 2016
Balance Sheet		
Included in accounts payable and accrued liabilities	**$ 13.1**	$ 10.3

11. Subsequent Event

On July 25, 2017, the Board of Directors declared a quarterly dividend of $0.625 per share, payable on August 14, 2017, to shareholders of record on August 7, 2017.