UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2017

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________to_______

COMMISSION FILE NUMBER 001-33164

DOMTAR CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	**20-5901152**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

234 Kingsley Park Drive, Fort Mill, SC 29715
(Address of principal executive offices)
(zip code)

(803) 802-7500
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation ST (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a small reporting company)	Small reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

At April 28, 2017, 62,632,188 shares of the issuer's common stock were outstanding.

DOMTAR CORPORATION
FORM 10-Q
For the Quarterly Period Ended March 31, 2017
INDEX

PART I: FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS (UNAUDITED)

DOMTAR CORPORATION

CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	Three months ended March 31, 2017	Three months ended March 31, 2016
	(Unaudited)	
	$	$
Sales	**1,304**	1,287
Operating expenses		
Cost of sales, excluding depreciation and amortization	**1,075**	1,050
Depreciation and amortization	**80**	89
Selling, general and administrative	**108**	103
Impairment of property, plant and equipment (NOTE 11)	**—**	21
Closure and restructuring costs (NOTE 11)	**—**	2
Other operating (income) loss, net (NOTE 6)	**(1)**	4
	1,262	1,269
Operating income	**42**	18
Interest expense, net	**17**	17
Earnings before income taxes	**25**	1
Income tax expense (benefit) (NOTE 7)	**5**	(3)
Net earnings	**20**	4
Per common share (in dollars) (NOTE 4)		
Net earnings		
Basic	**0.32**	0.06
Diluted	**0.32**	0.06
Weighted average number of common shares outstanding (millions)		
Basic	**62.6**	62.7
Diluted	**62.8**	62.8
Cash dividends per common share	**0.415**	0.40
Net earnings	**20**	4
Other comprehensive income (NOTE 12):		
Net derivative (losses) gains on cash flow hedges:		
Net gains arising during the period, net of tax of nil (2016 – $(13))	**—**	20
Less: Reclassification adjustment for (gains) losses included in net earnings, net of tax of $2 (2016 – $(5))	**(3)**	8
Foreign currency translation adjustments	**15**	85
Change in unrecognized gains and prior service cost related to pension and post-retirement benefit plans, net of tax of $(1) (2016 – $(1))	**2**	1
Other comprehensive income	**14**	114
Comprehensive income	**34**	118

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

DOMTAR CORPORATION
CONSOLIDATED BALANCE SHEETS

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	At	
	March 31, 2017	December 31, 2016
	(Unaudited)	
	$	$
Assets		
Current assets		
Cash and cash equivalents	**111**	125
Receivables, less allowances of $7 and $7	**662**	613
Inventories (NOTE 8)	**722**	759
Prepaid expenses	**34**	40
Income and other taxes receivable	**15**	31
Total current assets	**1,544**	1,568
Property, plant and equipment, net	**2,789**	2,825
Goodwill (NOTE 9)	**553**	550
Intangible assets, net (NOTE 10)	**607**	608
Other assets	**132**	129
Total assets	**5,625**	5,680
Liabilities and shareholders' equity		
Current liabilities		
Bank indebtedness	**2**	12
Trade and other payables	**633**	656
Income and other taxes payable	**25**	22
Long-term debt due within one year	**64**	63
Total current liabilities	**724**	753
Long-term debt	**1,188**	1,218
Deferred income taxes and other	**672**	675
Other liabilities and deferred credits	**356**	358
Commitments and contingencies (NOTE 14)		
Shareholders' equity (NOTE 13)		
Common stock $0.01 par value; authorized 2,000,000,000 shares; issued: 65,001,104 and 65,001,104 shares	**1**	1
Treasury stock $0.01 par value; 2,368,916 and 2,412,267 shares	**—**	—
Additional paid-in capital	**1,964**	1,963
Retained earnings	**1,205**	1,211
Accumulated other comprehensive loss	**(485)**	(499)
Total shareholders' equity	**2,685**	2,676
Total liabilities and shareholders' equity	**5,625**	5,680

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

DOMTAR CORPORATION
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	Issued and outstanding common shares (millions of shares)	Common stock, at par	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
			(Unaudited)			
		$	$	$	$	$
Balance at December 31, 2016	62.6	1	1,963	1,211	(499)	2,676
Stock-based compensation, net of tax	—	—	1	—	—	1
Net earnings	—	—	—	20	—	20
Net derivative losses on cash flow hedges:						
Net gains arising during the period, net of tax of nil	—	—	—	—	—	—
Less: Reclassification adjustments for gains included in net earnings, net of tax of $2	—	—	—	—	(3)	(3)
Foreign currency translation adjustments	—	—	—	—	15	15
Change in unrecognized gains and prior service cost related to pension and post-retirement benefit plans, net of tax of $(1)	—	—	—	—	2	2
Cash dividends declared	—	—	—	(26)	—	(26)
Balance at March 31, 2017	**62.6**	**1**	**1,964**	**1,205**	**(485)**	**2,685**

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

DOMTAR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN MILLIONS OF DOLLARS)

	For the three months ended	
	March 31, 2017	March 31, 2016
	(Unaudited)	
	$	$
Operating activities		
Net earnings	**20**	4
Adjustments to reconcile net earnings to cash flows from operating activities		
Depreciation and amortization	**80**	89
Deferred income taxes and tax uncertainties	**(4)**	(3)
Impairment of property, plant and equipment	**—**	21
Stock-based compensation expense	**1**	1
Changes in assets and liabilities		
Receivables	**(47)**	(6)
Inventories	**39**	(1)
Prepaid expenses	**1**	(1)
Trade and other payables	**(19)**	2
Income and other taxes	**21**	(9)
Difference between employer pension and other post-retirement contributions and pension and other post-retirement expense	**—**	(1)
Other assets and other liabilities	**(1)**	1
Cash flows from operating activities	**91**	97
Investing activities		
Additions to property, plant and equipment	**(34)**	(100)
Cash flows used for investing activities	**(34)**	(100)
Financing activities		
Dividend payments	**(26)**	(25)
Stock repurchase	**—**	(10)
Net change in bank indebtedness	**(11)**	7
Change in revolving bank credit facility	**(20)**	—
Proceeds from receivables securitization facility	**—**	20
Repayments of receivables securitization facility	**(15)**	(20)
Repayments of long-term debt	**—**	(1)
Cash flows used for financing activities	**(72)**	(29)
Net decrease in cash and cash equivalents	**(15)**	(32)
Impact of foreign exchange on cash	**1**	3
Cash and cash equivalents at beginning of period	**125**	126
Cash and cash equivalents at end of period	**111**	97
Supplemental cash flow information		
Net cash payments (refunds) for:		
Interest	**19**	20
Income taxes	**(8)**	6

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

INDEX FOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1.

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of Management, include all adjustments that are necessary for the fair statement of Domtar Corporation's ("the Company") financial position, results of operations, and cash flows for the interim periods presented. Results for the first three months of the year may not necessarily be indicative of full year results. It is suggested that these consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Domtar Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission. The December 31, 2016 Consolidated Balance Sheet, presented for comparative purposes in this interim report, was derived from audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

NOTE 2.

RECENT ACCOUNTING PRONOUNCEMENTS

ACCOUNTING CHANGES IMPLEMENTED

INVENTORY

In July 2015, the FASB issued Accounting Standard Update ("ASU") 2015-11, "*Simplifying the Measurement of Inventory,*" which simplifies the measurement of inventories valued under FIFO – first-in, first-out – and moving average methods. Under this new guidance, inventories valued under these methods would be valued at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling costs less reasonable costs to sell the inventory. This ASU does not change the measurement principles for inventories valued under the LIFO – last-in, first-out – method.

The Company adopted the new guidance on January 1, 2017 with no impact on the consolidated financial statements.

SHARE-BASED PAYMENTS

In March 2016, the FASB issued ASU 2016-09, "*Improvements to Employee Share-Based Payment Accounting,*" which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows.

The Company adopted the new guidance on January 1, 2017 with no significant impact on the consolidated financial statements.

FUTURE ACCOUNTING CHANGES

REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers.*" The core principal of this guidance is that an entity should recognize revenue, to depict the transfer of promised goods or services to customers, in an amount that reflects the consideration for which the entity is entitled to, in exchange for those goods and services. This new guidance will supersede the revenue recognition requirements found in topic 605.

ASU 2014-09 will be effective for annual reporting periods beginning after December 15, 2017 including interim periods within that reporting period. Early adoption is permitted only for annual and interim periods beginning after December 15, 2016.

Entities are permitted to adopt the new revenue standard by restating all prior periods under the full retrospective approach following ASC 250 "*Accounting Changes and Error Corrections"* or entities can elect to use a modified retrospective approach. Under the modified retrospective approach, entities will recognize the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings in the period of initial application and comparative prior year periods would not be adjusted.

The Company is assessing the impact that the guidance will have on the consolidated financial statements and related disclosures. The Company currently expects to adopt the new revenue standards in its first quarter of 2018 utilizing the modified retrospective transition method. Further, the Company expects to identify similar performance obligations under the new guidance as compared with deliverables previously identified. As a result, the Company expects the timing of its revenue to remain substantially the same.

While the Company is still evaluating the impact of adopting the new standard, it does not expect this new guidance to have a material impact on the consolidated earnings.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

FINANCIAL INSTRUMENTS

In January 2016, the FASB issued ASU 2016-01, "*Recognition and Measurement of Financial Assets and Financial Liabilities,*" which amends the guidance on the classification and measurement of financial instruments. Although the ASU retains many current requirements, it significantly revises an entity's accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments.

The amendments in this update are effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017. To adopt the amendments, companies will be required to make a cumulative-effect adjustment to beginning retained earnings as of the beginning of the fiscal year in which the guidance is effective. Early adoption is permitted.

The Company does not expect this new guidance to have a material impact on the consolidated financial statements.

LEASES

In February 2016, the FASB issued ASU 2016-02, "*Leases,*" which requires lessees to recognize a right-of-use asset and a lease liability for all of their leases with a lease term greater than 12 months while continuing to recognize expenses in the statement of earnings in a manner similar to current accounting standards. For lessors, the new standard modifies the classification criteria and the accounting for sales-type and direct financing leases.

As a lessee, Domtar's various leases under existing guidance are classified as operating leases that are not recorded on the balance sheet but are recorded in the statement of earnings as expense is incurred. Upon adoption of the new guidance, the Company will be required to record substantially all leases on the Consolidated Balance Sheets as a right-of-use asset and a lease liability. The timing of expense recognition and classification in the Consolidated Statements of Earnings and Comprehensive Income could change based on the classification of leases as either operating or financing.

This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted as of the beginning of an interim or annual reporting period.

The Company is currently evaluating the impact of this guidance on the consolidated financial statements, including analyzing all contracts that contain a lease.

DERIVATIVES AND HEDGING

In March 2016, the FASB issued ASU 2016-05, "*Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships,*" which clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument in an existing hedging relationship would not, in and of itself, be considered a termination of the derivative instrument or a change in a critical term of the hedging relationship. As long as all other hedge accounting criteria in ASC 815 are met, a hedging relationship in which the hedging derivative instrument is novated would not be discontinued or require redesignation. This clarification applies to both cash flow and fair value hedging relationships. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted as of the beginning of an interim or annual reporting period.

The Company does not expect this new guidance to have a material impact on the consolidated financial statements.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

CLASSIFICATION OF CASH FLOWS

In August 2016, the FASB issued ASU 2016-15, " *Statement of Cash Flows,*" which amends ASC 230 to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The guidance must be applied retrospectively to all periods presented but it may be applied prospectively if retrospective application would be impracticable. Early adoption is permitted.

The Company does not expect this new guidance to have a material impact on the consolidated financial statements.

GOODWILL IMPAIRMENT

In January 2017, the FASB issued ASU 2017-04, "*Simplifying the Test for Goodwill Impairment,"* which removes the requirement for an entity to calculate the implied fair value of goodwill in measuring a goodwill impairment loss, referred to as the Step II test. As a result, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount for which the carrying value exceeds the reporting unit's fair value. The impairment loss recognized should be recorded against goodwill and should not exceed the total amount of goodwill allocated to that reporting unit. This ASU is effective for annual or any interim goodwill impairment tests performed in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests with measurement dates after January 1, 2017.

The Company expects to adopt this new guidance concurrently with its 2017 annual goodwill impairment test.

RETIREMENT BENEFITS

In March 2017, the FASB issued ASU 2017-07, "*Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,*" which requires an entity to present the service cost component of the net periodic benefit cost with other employee compensation costs in operating income. Only the service cost components will be eligible for capitalization in assets. The other components of the net periodic benefit cost will be presented outside of any subtotal of operating income. An appropriate disclosure of the line(s) used to present other components of net periodic benefit costs is required if the components are not presented separately in the statement of earnings. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance.

While the Company is still evaluating the impact of adopting this new guidance, it does not expect this new guidance to have a material impact on the consolidated earnings.

NOTE 3.

DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT

HEDGING PROGRAMS

The Company is exposed to market risk, such as changes in currency exchange rates, commodity prices, and interest rates. To the extent the Company decides to manage the volatility related to these exposures, the Company may enter into various financial derivatives that are accounted for under the derivatives and hedging guidance. These transactions are governed by the Company's hedging policies which provide direction on acceptable hedging activities, including instrument type and acceptable counterparty exposure.

Upon inception, the Company formally documents the relationship between hedging instruments and hedged items. At inception and quarterly thereafter, the Company formally assesses whether the financial instruments used in hedging transactions are effective at offsetting changes in either the cash flow or the fair value of the underlying exposures. The ineffective portion of the qualifying instrument is immediately recognized to earnings. The amount of ineffectiveness recognized was immaterial for all periods presented. The Company does not hold derivative financial instruments for trading purposes.

CREDIT RISK

The Company is exposed to credit risk on the accounts receivable from its customers. In order to reduce this risk, the Company reviews new customers' credit history before granting credit and conducts regular reviews of existing customers' credit performance. As of March 31, 2017, one of Domtar's Pulp and Paper segment customers located in the U.S. represented 13% or \$85 million (2016 – 12% or \$74 million) of the Company's receivables.

The Company is exposed to credit risk in the event of non-performance by counterparties to its financial instruments. The Company attempts to minimize this exposure by entering into contracts with counterparties that are believed to be of high credit quality. Collateral or other security to support financial instruments subject to credit risk is usually not obtained. The credit standing of counterparties is regularly monitored.

INTEREST RATE RISK

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its cash and cash equivalents, bank indebtedness, revolving credit facility and long-term debt. The Company's objective in managing exposure to interest rate changes is to minimize the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. The Company may manage this interest rate exposure through the use of derivative instruments such as interest rate swap contracts, whereby it agrees to exchange the difference between fixed and variable interest amounts calculated by reference to an agreed upon notional principal amount.

COST RISK

Cash flow hedges:

The Company is exposed to price volatility for raw materials and energy used in its manufacturing process. The Company manages its exposure to cost risk primarily through the use of supplier contracts. The Company purchases natural gas at the prevailing market price at the time of delivery. To reduce the impact on cash flow and earnings due to pricing volatility, the Company may utilize derivatives to fix the price of forecasted natural gas purchases. The changes in the fair value on qualifying instruments are included in Accumulated other comprehensive loss to the extent effective, and reclassified into Cost of sales in the period during which the hedged transaction affects earnings. Current contracts are used to hedge a portion of forecasted purchases over the next 60 months.

NOTE 3. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

The following table presents the volumes under derivative financial instruments for natural gas contracts outstanding as of March 31, 2017 to hedge forecasted purchases:

Commodity	Notional contractual quantity under derivative contracts MMBTU(3)	Notional contractual value under derivative contracts (in millions of dollars)	Percentage of forecasted purchases under derivative contracts
Natural Gas			
2017 (1)	6,205,000	$ 20	35%
2018	10,485,000	$ 31	41%
2019	9,175,000	$ 27	36%
2020	5,750,000	$ 18	23%
2021	3,920,000	$ 12	15%
2022 (2)	1,185,000	$ 4	16%

(1) Represents the remaining nine months of 2017
(2) Represents the first three months of 2022
(3) MMBTU: Millions of British thermal units

The natural gas derivative contracts were fully effective as of March 31, 2017. There were no amounts reflected in the Consolidated Statements of Earnings and Comprehensive Income for the three months ended March 31, 2017 resulting from hedge ineffectiveness (three months ended March 31, 2016 – nil).

FOREIGN CURRENCY RISK

Cash flow hedges:

The Company has manufacturing operations in the United States, Canada and Europe. As a result, it is exposed to movements in foreign currency exchange rates in Canada and Europe. Moreover, certain assets and liabilities are denominated in currencies other than the U.S. dollar and are exposed to foreign currency movements. Accordingly, the Company's earnings are affected by increases or decreases in the value of the Canadian dollar and the European currencies. The Company's European subsidiaries are also exposed to movements in foreign currency exchange rates on transactions denominated in a currency other than their Euro functional currency. The Company's risk management policy allows it to hedge a significant portion of its exposure to fluctuations in foreign currency exchange rates for periods up to three years. The Company may use derivative financial instruments (currency options and foreign exchange forward contracts) to mitigate its exposure to fluctuations in foreign currency exchange rates.

Derivatives are used to hedge forecasted purchases in Canadian dollars by the Company's Canadian subsidiary over the next 24 months. Derivatives are currently used to hedge a portion of forecasted sales by its U.S. subsidiaries in Euros and in British pounds over a period of between 3 to 9 months. Derivatives are also currently used to hedge a portion of forecasted sales in British pounds and Norwegian krone and a portion of forecasted purchases in U.S. dollars and Swedish krona by its European subsidiaries over a period of between 12 to 15 months. Such derivatives are designated as cash flow hedges. The changes in the fair value on qualifying instruments are included in Accumulated other comprehensive loss to the extent effective, and reclassified into Sales or Cost of sales in the period during which the hedged transaction affects earnings.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 3. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

The following table presents the currency values under significant currency positions pursuant to currency derivatives outstanding as of March 31, 2017 to hedge forecasted purchases and sales:

Currency exposure hedged	Business Segment	Year of maturity	Notional contractual value	Percentage of forecasted net exposures under contracts	Average Protection rate	Average Obligation rate
		2017 (1)				
CDN/USD	Pulp and Paper		380 CDN	65%	1 USD = 1.3058	1 USD = 1.3580
USD/Euro	Personal Care		41 USD	82%	1 Euro = 1.1394	1 Euro = 1.1394
Euro/USD	Pulp and Paper		9 EUR	12%	1 Euro = 1.1389	1 Euro = 1.1389
		2018				
CDN/USD	Pulp and Paper		280 CDN	36%	1 USD = 1.2933	1 USD = 1.3507
USD/Euro	Personal Care		19 USD	29%	1 Euro = 1.1307	1 Euro = 1.1307
		2019				
CDN/USD	Pulp and Paper		48 CDN	6%	1 USD = 1.2743	1 USD = 1.3401

(1) Represents the remaining nine months of 2017

The foreign exchange derivative contracts were fully effective as of March 31, 2017. There were no amounts reflected in the Consolidated Statements of Earnings and Comprehensive Income for the three months ended March 31, 2017 resulting from hedge ineffectiveness (three months ended March 31, 2016 – nil).

FAIR VALUE MEASUREMENT

The accounting standards for fair value measurements and disclosures, establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement.

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 3. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

The following tables present information about the Company's financial assets and financial liabilities measured at fair value on a recurring basis (except Long-term debt, see (b) below) at March 31, 2017 and December 31, 2016, in accordance with the accounting standards for fair value measurements and disclosures and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

Fair Value of financial instruments at:	**March 31, 2017**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**		**Balance sheet classification**
	$	$	$	$		
Derivatives designated as hedging instruments:						
Asset derivatives						
Currency derivatives	**14**	—	14	—	(a)	Prepaid expenses
Natural gas swap contracts	**4**	—	4	—	(a)	Prepaid expenses
Currency derivatives	**4**	—	4	—	(a)	Other assets
Total Assets	**22**	—	22	—		
Liabilities derivatives						
Currency derivatives	**6**	—	6	—	(a)	Trade and other payables
Natural gas swap contracts	**1**	—	1	—	(a)	Trade and other payables
Currency derivatives	**4**	—	4	—	(a)	Other liabilities and deferred credits
Natural gas swap contracts	**5**	—	5	—	(a)	Other liabilities and deferred credits
Total Liabilities	**16**	—	16	—		
Other Instruments:						
Stock-based compensation - liability awards	**3**	3	—	—		Trade and other payables
Stock-based compensation - liability awards	**13**	13	—	—		Other liabilities and deferred credits
Long-term debt	**1,288**	—	1,288	—	(b)	Long-term debt

The net cumulative loss recorded in Accumulated other comprehensive loss relating to natural gas contracts is $2 million at March 31, 2017, of which a gain of $3 million will be recognized in Cost of sales upon maturity of the derivatives over the next 12 months at the then prevailing values, which may be different from those at March 31, 2017.

The net cumulative gain recorded in Accumulated other comprehensive loss relating to currency options and forwards hedging forecasted purchases of $8 million at March 31, 2017, will be recognized in Cost of sales or Sales upon maturity of the derivatives over the next 12 months at the then prevailing values, which may be different from those at March 31, 2017.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 3. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

Fair Value of financial instruments at:	December 31, 2016	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance sheet classification
	$	$	$	$	
Derivatives designated as hedging instruments:					
Asset derivatives					
Currency derivatives	**18**	—	18	—	(a) Prepaid expenses
Natural gas swap contracts	**6**	—	6	—	(a) Prepaid expenses
Currency derivatives	**6**	—	6	—	(a) Other assets
Natural gas swap contracts	**2**	—	2	—	(a) Other assets
Total Assets	**32**	—	32	—	
Liabilities derivatives					
Currency derivatives	**10**	—	10	—	(a) Trade and other payables
Natural gas swap contracts	**1**	—	1	—	(a) Trade and other payables
Currency derivatives	**6**	—	6	—	(a) Other liabilities and deferred credits
Natural gas swap contracts	**4**	—	4	—	(a) Other liabilities and deferred credits
Total Liabilities	**21**	—	21	—	
Other Instruments:					
Stock-based compensation - liability awards	**2**	2	—	—	Trade and other payables
Stock-based compensation - liability awards	**17**	17	—	—	Other liabilities and deferred credits
Long-term debt	**1,313**	—	1,313	—	(b) Long-term debt

(a) Fair value of the Company's derivatives are classified under Level 2 (inputs that are observable; directly or indirectly) as it is measured as follows:

- For currency derivatives: Fair value is measured using techniques derived from the Black-Scholes pricing model. Interest rates, forward market rates and volatility are used as inputs for such valuation techniques.
- For natural gas contracts: Fair value is measured using the discounted difference between contractual rates and quoted market future rates.

(b) Fair value of the Company's long-term debt is measured by comparison to market prices of its debt. The Company's long-term debt is not carried at fair value on the Consolidated Balance Sheets at March 31, 2017 and December 31, 2016. However, fair value disclosure is required. The carrying value of the Company's long-term debt is $1,252 million and $1,281 million at March 31, 2017 and December 31, 2016, respectively.

Due to their short-term maturity, the carrying amounts of cash and cash equivalents, receivables, bank indebtedness, trade and other payables and income and other taxes approximate their fair values.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 4.

EARNINGS PER COMMON SHARE

The following table provides the reconciliation between basic and diluted earnings per common share:

	For the three months ended	
	March 31, 2017	March 31, 2016
Net earnings	**$ 20**	$ 4
Weighted average number of common shares outstanding (millions)	**62.6**	62.7
Effect of dilutive securities (millions)	**0.2**	0.1
Weighted average number of diluted common shares outstanding (millions)	**62.8**	62.8
Basic net earnings per common share (in dollars)	**$ 0.32**	$ 0.06
Diluted net earnings per common share (in dollars)	**$ 0.32**	$ 0.06

The following table provides the securities that could potentially dilute basic earnings per common share in the future, but were not included in the computation of diluted earnings per common share because to do so would have been anti-dilutive:

	For the three months ended	
	March 31, 2017	March 31, 2016
Options	**419,161**	415,922

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 5.

PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS

DEFINED CONTRIBUTION PLANS

The Company has several defined contribution plans and multiemployer plans. The pension expense under these plans is equal to the Company's contribution. For the three months ended March 31, 2017, the pension expense was $11 million (2016 – $10 million).

DEFINED BENEFIT PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS

The Company sponsors both contributory and non-contributory U.S. and non-U.S. defined benefit pension plans. Non-unionized employees in Canada joining the Company after January 1, 1998 participate in a defined contribution pension plan. Salaried employees in the U.S. joining the Company after January 1, 2008 participate in a defined contribution pension plan. Unionized and non-union hourly employees in the U.S. who are not grandfathered under the existing defined benefit pension plans, participate in a defined contribution pension plan for future service. The Company also sponsors a number of other post-retirement benefit plans for eligible U.S. and non-U.S. employees; the plans are unfunded and include life insurance programs and medical and dental benefits. The Company also provides supplemental unfunded defined benefit pension plans and supplemental unfunded defined contribution pension plans to certain senior management employees.

Components of net periodic benefit cost for pension plans and other post-retirement benefit plans:

	For the three months ended	
	March 31, 2017	
	Pension plans	**Other post-retirement benefit plans**
	$	**$**
Service cost	**8**	**—**
Interest expense	**12**	**1**
Expected return on plan assets	**(20)**	**—**
Amortization of net actuarial loss	**2**	**—**
Amortization of prior year service costs	**1**	**—**
Net periodic benefit cost	**3**	**1**

Components of net periodic benefit cost for pension plans and other post-retirement benefit plans:

	For the three months ended	
	March 31, 2016	
	Pension plans	Other post-retirement benefit plans
	$	$
Service cost	8	—
Interest expense	12	1
Expected return on plan assets	(19)	—
Amortization of net actuarial loss	1	—
Amortization of prior year service costs	1	—
Net periodic benefit cost	3	1

For the three months ended March 31, 2017, the Company contributed $3 million (2016 – $4 million) to the pension plans and $1 million (2016 – $1 million) to the other post-retirement benefit plans.

NOTE 6.

OTHER OPERATING (INCOME) LOSS, NET

Other operating (income) loss, net is an aggregate of both recurring and occasional loss or income items and, as a result, can fluctuate from period to period. The Company's other operating (income) loss, net includes the following:

	For the three months ended	
	March 31, 2017	March 31, 2016
	$	$
Foreign exchange loss	**1**	4
Other	**(2)**	—
Other operating (income) loss, net	**(1)**	4

NOTE 7.

INCOME TAXES

For the first quarter of 2017, the Company's income tax expense was $5 million, consisting of $9 million of current income tax expense and a deferred income tax benefit of $4 million. This compares to an income tax benefit of $3 million in the first quarter of 2016, consisting of no current income tax expense and a deferred income tax benefit of $3 million. The Company received income tax refunds, net of payments, of $8 million during the first quarter of 2017. The effective tax rate was 20% compared with an effective tax rate of -300% in the first quarter of 2016. The effective tax rate for the first quarter of 2017 was favorably impacted by the recognition of $1 million of previously unrecognized tax benefits due to a statute expiration in a foreign jurisdiction and a U.S. state tax audit finalization. The effective tax rate for the first quarter of 2016 was impacted by the approval of a state tax credit in the U.S.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 8.

INVENTORIES

The following table presents the components of inventories:

	March 31, 2017	December 31, 2016
	$	$
Work in process and finished goods	**362**	413
Raw materials	**145**	132
Operating and maintenance supplies	**215**	214
	722	759

NOTE 9.

GOODWILL

Changes in the carrying value of goodwill are as follows:

	March 31, 2017
	$
Balance at December 31, 2016	**550**
Effect of foreign currency exchange rate change	**3**
Balance at end of period	**553**

The goodwill at March 31, 2017 is entirely related to the Personal Care reporting segment.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 10.

INTANGIBLE ASSETS

The following table presents the components of intangible assets:

		March 31, 2017			December 31, 2016		
	Estimated useful lives (in years)	**Gross carrying amount**	**Accumulated amortization**	**Net**	Gross carrying amount	Accumulated amortization	Net
		$	**$**	**$**	$	$	$
Definite-lived intangible assets subject to amortization							
Water rights	40	**3**	**(1)**	**2**	3	(1)	2
Customer relationships	10 – 40	**372**	**(64)**	**308**	369	(60)	309
Technology	7 – 20	**8**	**(3)**	**5**	8	(3)	5
Non-Compete	9	**1**	**(1)**	**—**	1	—	1
License rights	12	**28**	**(9)**	**19**	28	(8)	20
		412	**(78)**	**334**	409	(72)	337
Indefinite-lived intangible assets not subject to amortization							
Water rights		**4**	**—**	**4**	4	—	4
Trade names		**227**	**—**	**227**	225	—	225
License rights		**6**	**—**	**6**	6	—	6
Catalog rights		**36**	**—**	**36**	36	—	36
Total		**685**	**(78)**	**607**	680	(72)	608

Amortization expense related to intangible assets for the three months ended March 31, 2017 was $5 million (2016 – $5 million).

Amortization expense for the next five years related to intangible assets is expected to be as follows:

	2017	**2018**	**2019**	**2020**	**2021**
	$	$	$	$	$
Amortization expense related to intangible assets	21	20	20	20	20

NOTE 11.

CLOSURE AND RESTRUCTURING COSTS AND LIABILITY AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

Ashdown, Arkansas mill

On December 10, 2014, the Company announced a project to convert a paper machine at its Ashdown, Arkansas mill to a high quality fluff pulp line used in absorbent applications such as baby diapers, feminine hygiene and adult incontinence products. The Company also invested in a pulp bale line that will provide flexibility to manufacture papergrade softwood pulp, contingent on market conditions. The conversion work commenced during the second quarter of 2016 and the production of bale softwood pulp began in the third quarter of 2016. The fluff qualification period began in the fourth quarter of 2016. The fluff pulp line will allow for the production of up to 516,000 metric tons of fluff pulp per year once the machine is in full operation. The project resulted in the permanent reduction of 364,000 short tons of annual uncoated freesheet production capacity on March 31, 2016.

For the three months ended March 31, 2016, the Company recorded $21 million of accelerated depreciation under Impairment of property, plant and equipment on the Consolidated Statement of Earnings and Comprehensive Income. The Company also recorded $1 million of severance and termination costs under Closure and restructuring costs.

Other costs

During the first quarter of 2016, other costs related to previous and ongoing closures include $1 million of severance and termination costs related to Pulp and Paper.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 12.

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT

The following table presents the changes in Accumulated other comprehensive loss by component(1) for the three months ended March 31, 2017 and the year ended December 31, 2016:

	Net derivative (losses) gains on cash flow hedges	Pension items(2)	Post-retirement benefit items(2)	Foreign currency items	Total
	$	$	$	$	$
Balance at December 31, 2015	(30)	(190)	(10)	(271)	**(501)**
Natural gas swap contracts	4	N/A	N/A	N/A	**4**
Net investment hedge	(1)	N/A	N/A	N/A	**(1)**
Currency options	8	N/A	N/A	N/A	**8**
Foreign exchange forward contracts	16	N/A	N/A	N/A	**16**
Net gain	N/A	(38)	(1)	N/A	**(39)**
Foreign currency items	N/A	N/A	N/A	(7)	**(7)**
Other comprehensive income (loss) before reclassifications	27	(38)	(1)	(7)	**(19)**
Amounts reclassified from Accumulated other comprehensive loss	14	7	—	—	**21**
Net current period other comprehensive income (loss)	41	(31)	(1)	(7)	**2**
Balance at December 31, 2016	11	(221)	(11)	(278)	**(499)**
Natural gas swap contracts	(2)	N/A	N/A	N/A	**(2)**
Net investment hedge	—	N/A	N/A	N/A	**—**
Currency options	2	N/A	N/A	N/A	**2**
Foreign exchange forward contracts	—	N/A	N/A	N/A	**—**
Net gain	N/A	—	—	N/A	**—**
Foreign currency items	N/A	N/A	N/A	15	**15**
Other comprehensive income before reclassifications	—	—	—	15	**15**
Amounts reclassified from Accumulated other comprehensive loss	(3)	2	—	—	**(1)**
Net current period other comprehensive (loss) income	(3)	2	—	15	**14**
Balance at March 31, 2017	8	(219)	(11)	(263)	**(485)**

(1) All amounts are after tax. Amounts in parentheses indicate losses.
(2) The accrued benefit obligation is actuarially determined on an annual basis as of December 31.

NOTE 12. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT (CONTINUED)

The following table presents reclassifications out of Accumulated other comprehensive loss:

Details about Accumulated other comprehensive loss components	Amount reclassified from Accumulated other comprehensive loss(1)		
	For the three months ended		
	March 31, 2017	March 31, 2016	
	$	$	
Net derivative (losses) gains on cash flow hedge			
Natural gas swap contracts	(1)	5	(2)
Currency options and forwards	(4)	8	(2)
Total before tax	(5)	13	
Tax benefit (expense)	2	(5)	
Net of tax	(3)	8	
Amortization of defined benefit pension items			
Amortization of net actuarial loss and prior year service cost	3	2	(3)
Tax expense	(1)	(1)	
Net of tax	2	1	

(1) Amounts in parentheses indicate losses.
(2) These amounts are included in Cost of Sales in the Consolidated Statements of Earnings and Comprehensive Income.
(3) These amounts are included in the computation of net periodic benefit cost (see Note 5 “Pension Plans and Other Post-Retirement Benefit Plans” for more details).

NOTE 13.

SHAREHOLDERS' EQUITY

On February 21, 2017, the Company's Board of Directors approved a quarterly dividend of $0.415 per share to be paid to holders of the Company's common stock. Total dividends of approximately $26 million were paid on April 17, 2017 to shareholders of record on April 3, 2017.

On May 3, 2017, the Company's Board of Directors approved a quarterly dividend of $0.415 per share to be paid to holders of the Company's common stock. This dividend is to be paid on July 17, 2017, to shareholders of record on July 3, 2017.

STOCK REPURCHASE PROGRAM

The Company's Board of Directors has authorized a stock repurchase program (the "Program") of up to $1.3 billion. Under the Program, the Company is authorized to repurchase from time to time shares of its outstanding common stock on the open market or in privately negotiated transactions. The timing and amount of stock repurchases will depend on a variety of factors, including the market conditions as well as corporate and regulatory considerations. The Program may be suspended, modified or discontinued at any time and the Company has no obligation to repurchase any amount of its common stock under the Program. The Program has no set expiration date. The Company repurchases its common stock, from time to time, in part to reduce the dilutive effects of stock options and awards, and to improve shareholders' returns.

The Company makes open market purchases of its common stock using general corporate funds. Additionally, the Company may enter into structured stock repurchase agreements with large financial institutions using general corporate funds in order to lower the average cost to acquire shares. The agreements would require the Company to make up-front payments to the counterparty financial institutions which would result in either the receipt of stock at the beginning of the term of the agreements followed by a share adjustment at the maturity of the agreements, or the receipt of either stock or cash at the maturity of the agreements, depending upon the price of the stock.

During the first quarter of 2017, there were no shares repurchased under the Program.

During the first quarter of 2016, the Company repurchased 304,915 shares at an average price of $32.21 for a total cost of $10 million.

Since the inception of the Program, the Company has repurchased 24,853,827 shares at an average price of $39.33 for a total cost of $977 million. All shares repurchased are recorded as Treasury stock on the Consolidated Balance Sheets under the par value method at $0.01 per share.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 14.

COMMITMENTS AND CONTINGENCIES

ENVIRONMENT MATTERS

The Company is subject to environmental laws and regulations enacted by federal, provincial, state and local authorities.

On February 16, 2010, the government of British Columbia issued a Remediation Order to Seaspan International Ltd. ("Seaspan") and the Company, in order to define and implement an action plan to address soil, sediment and groundwater issues. Working with authorities, Seaspan and the Company selected a remedial plan and obtained permitting approval on May 14, 2015 from the Vancouver Fraser Port Authority. Construction began in January 2017. The Company has previously recorded an environmental reserve to address its estimated exposure. The possible cost in excess of the reserve is not considered to be material for this matter.

The following table reflects changes in the reserve for environmental remediation and asset retirement obligations:

	March 31, 2017
	$
Balance at beginning of year	50
Additions	1
Environmental spending	(2)
Effect of foreign currency exchange rate change	—
Balance at end of period	49

The U.S. Environmental Protection Agency ("EPA") and/or various state agencies have notified the Company that it may be a potentially responsible party under the Comprehensive Environmental Response Compensation and Liability Act, commonly known as "Superfund," and similar state laws with respect to other hazardous waste sites as to which no proceedings have been instituted against the Company. The Company continues to take remedial action under its Care and Control Program at its former wood preserving sites, and at a number of operating sites due to possible soil, sediment or groundwater contamination.

Climate change regulation

Various national and local laws and regulations have been established or are emerging in jurisdictions where the Company currently has, or may have in the future, manufacturing facilities or investments. The Company does not expect to be disproportionately affected by these measures compared with other pulp and paper producers located in these jurisdictions.

In the United States, EPA's Clean Power Plan requires states to develop compliance plans to reduce greenhouse gases ("GHG") emissions beginning in 2022 from existing electric utilities. The Clean Power Plan requirements could result in significant changes to state energy resources and increase the cost of purchased energy in most states. The final rule is being litigated and on February 9, 2016, the U.S. Supreme Court stayed the implementation of the Clean Power Plan until the litigation is resolved. Oral argument was held before the U.S. Court of Appeals for the D.C. Circuit on September 27, 2016, and a final decision is expected within months, although subsequent appeals to the U.S. Supreme Court are possible, and President Trump issued an Executive Order on March 28, 2017, directing his Administration to review and then suspend, revise, or rescind the Clean Power Plan, as appropriate and consistent with law. The Company does not expect to be disproportionately affected compared with other pulp and paper producers located in the states where the Company operates.

The Government of Canada is reviewing national policies to further GHG reductions and has announced its intent to impose a cost on carbon emissions. The Company does not expect its facilities to be disproportionately affected by these measures compared with other pulp and paper producers in Canada.

NOTE 14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The province of Quebec has a GHG cap-and-trade system with reduction targets. British Columbia has a carbon tax that applies to the purchase of fossil fuels within the province. The province of Ontario has finalized a cap-and-trade program with the first compliance period beginning January 1, 2017 through 2020. The Company does not expect to be disproportionately affected compared to the other pulp and paper producers located in these provinces.

CONTINGENCIES

In the normal course of operations, the Company becomes involved in various legal actions mostly related to contract disputes, patent infringements, environmental and product warranty claims, and labor issues. While the final outcome with respect to actions outstanding or pending at March 31, 2017, cannot be predicted with certainty, it is management's opinion that their resolution will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

Spanish Competition Investigation

On October 15, 2015, the Competition Directorate of Spain's National Commission of Markets and Competition ("CNMC") filed a Statement of Objections against a number of industry participants alleging the existence of a series of agreements between manufacturers, distributors and pharmacists to fix prices and to allocate margins for heavy adult incontinence products within the pharmacy channel in Spain during the period from December 1996 through January 2014. Among the parties named in the Statement of Objections was Indas, which the Company acquired in January 2014, and two of its affiliates.

On January 4, 2016, the Competition Directorate issued a proposed decision confirming the allegations of the Statement of Objections. The proposed decision recommended the imposition of fines on the parties without recommending the amount of any fines. The Company recorded a €0.2 million ($0.2 million) provision in the fourth quarter of 2015 in Other operating (income) loss, net.

On May 26, 2016, the CNMC rendered its final decision, which declared that a number of manufacturers of heavy adult incontinence products, the sector association and certain individuals participated in price fixing during the period from December 1996 through January 2014. Indas and one of its subsidiaries were fined a total of €13.5 million ($14.9 million) for their participation. A provision was recorded in the second quarter of 2016 in the amount of €13.3 million ($14.7 million) in Other operating (income) loss, net.

The sellers of Indas made representations and warranties to the Company in the purchase agreement regarding, among other things, Indas' and its subsidiary's compliance with competition laws. The liability retained by the sellers was backed by a retained purchase price of €3 million ($3.3 million) and bank guarantees of €9 million ($9.9 million).

On June 27, 2016, in light of the CNMC decision, the sellers, in terms of their indemnity obligations, agreed to the appropriation by the Company of the retained purchase price and the release of the bank guarantees. Accordingly, a recovery of €12 million ($13.2 million) was recorded in the second quarter of 2016 and included in Other operating (income) loss, net.

In July 2016, the fines were paid and Indas and two of its affiliates named in the final decision appealed the decision to the Spanish courts.

The Company purchased limited insurance coverage with respect to the purchase agreement, and is seeking to recover the remaining €1.5 million ($1.7 million) under the insurance policy. Any recovery from the insurers would be recorded in the period when the proceeds are received.

NOTE 14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

INDEMNIFICATIONS

In the normal course of business, the Company offers indemnifications relating to the sale of its businesses and real estate. In general, these indemnifications may relate to claims from past business operations, the failure to abide by covenants and the breach of representations and warranties included in the sales agreements. Typically, such representations and warranties relate to taxation, environmental, product and employee matters. The terms of these indemnification agreements are generally for an unlimited period of time. At March 31, 2017, the Company is unable to estimate the potential maximum liabilities for these types of indemnification guarantees as the amounts are contingent upon the outcome of future events, the nature and likelihood of which cannot be reasonably estimated at this time. Accordingly, no provision has been recorded. These indemnifications have not yielded a significant expense in the past.

Pension Plans

The Company has indemnified and held harmless the trustees of its pension funds, and the respective officers, directors, employees and agents of such trustees, from any and all costs and expenses arising out of the performance of their obligations under the relevant trust agreements, including in respect of their reliance on authorized instructions from the Company or for failing to act in the absence of authorized instructions. These indemnifications survive the termination of such agreements. At March 31, 2017 the Company has not recorded a liability associated with these indemnifications, as it does not expect to make any payments pertaining to these indemnifications.

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 15.

SEGMENT DISCLOSURES

The Company's two reportable segments described below also represent its two operating segments. Each reportable segment offers different products and services and requires different manufacturing processes, technology and/or marketing strategies. The following summary briefly describes the operations included in each of the Company's reportable segments:

- **Pulp and Paper** – consists of the design, manufacturing, marketing and distribution of communication, specialty and packaging papers, as well as softwood, fluff and hardwood market pulp.
- **Personal Care** – consists of the design, manufacturing, marketing and distribution of absorbent hygiene products.

An analysis and reconciliation of the Company's business segment information to the respective information in the financial statements is as follows:

SEGMENT DATA	*For the three months ended* **March 31, 2017**	March 31, 2016
	$	$
Sales		
Pulp and Paper	**1,073**	1,085
Personal Care	**249**	216
Total for reportable segments	**1,322**	1,301
Intersegment sales	**(18)**	(14)
Consolidated sales	**1,304**	1,287
Depreciation and amortization of property, plant and equipment		
Pulp and Paper	**64**	73
Personal Care	**16**	16
Total for reportable segments	**80**	89
Impairment of property, plant and equipment - Pulp and Paper	**—**	21
Consolidated depreciation and amortization and impairment of property, plant and equipment	**80**	110
Operating income (loss)		
Pulp and Paper	**34**	19
Personal Care	**16**	14
Corporate	**(8)**	(15)
Consolidated operating income	**42**	18
Interest expense, net	**17**	17
Earnings before income taxes	**25**	1
Income tax expense (benefit)	**5**	(3)
Net earnings	**20**	4

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 16.

SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

The following information is presented as required under Rule 3-10 of Regulation S-X, in connection with the Company's issuance of debt securities that are fully and unconditionally guaranteed by Domtar Paper Company, LLC, a 100% owned subsidiary of the Company, Domtar Industries LLC (and subsidiaries, excluding Domtar Funding LLC), Domtar A.W. LLC, Attends Healthcare Products Inc., EAM Corporation, Associated Hygienic Products LLC and Home Delivery Incontinent Supplies Co., all 100% owned subsidiaries of the Company ("Guarantor Subsidiaries"), on a joint and several basis. Pursuant to the amendment and restatement of the 2016 Credit Agreement on August 18, 2016, the Guaranteed Debt will not be guaranteed by certain of Domtar's 100% owned subsidiaries; including Domtar Delaware Holdings Inc. and its foreign subsidiaries, including Attends Healthcare Limited, Domtar Inc. and Laboratorios Indas. S.A.U.. Also excluded are Ariva Distribution Inc., Domtar Delaware Investments Inc., Domtar Delaware Holdings LLC, Domtar AI Inc., Domtar Personal Care Absorbent Hygiene Inc., Domtar Wisconsin Dam Corp. and Palmetto Enterprises LLC, (collectively the "Non-Guarantor Subsidiaries"). The subsidiary's guarantee may be released in certain customary circumstances, such as if the subsidiary is sold or sells all of its assets, if the subsidiary's guarantee of the Credit Agreement is terminated or released and if the requirements for legal defeasance to discharge the indenture have been satisfied.

The following supplemental condensed consolidating financial information sets forth, on an unconsolidated basis, the Balance Sheets at March 31, 2017 and December 31, 2016, the Statements of Earnings and Comprehensive Income and Cash Flows for the three months ended March 31, 2017 and 2016 for Domtar Corporation (the "Parent"), and on a combined basis for the Guarantor Subsidiaries and, on a combined basis, the Non-Guarantor Subsidiaries. The supplemental condensed consolidating financial information reflects the investments of the Parent in the Guarantor Subsidiaries, as well as the investments of the Guarantor Subsidiaries in the Non-Guarantor Subsidiaries, using the equity method.

	For the three months ended March 31, 2017				
CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Consolidating Adjustments**	**Consolidated**
	$	$	$	$	$
Sales	—	1,086	516	(298)	1,304
Operating expenses					
Cost of sales, excluding depreciation and amortization	—	970	403	(298)	1,075
Depreciation and amortization	—	59	21	—	80
Selling, general and administrative	2	33	73	—	108
Other operating (income) loss, net	—	(2)	1	—	(1)
	2	1,060	498	(298)	1,262
Operating (loss) income	(2)	26	18	—	42
Interest expense (income), net	17	20	(20)	—	17
(Loss) earnings before income taxes	(19)	6	38	—	25
Income tax (benefit) expense	(4)	2	7	—	5
Share in earnings of equity accounted investees	35	31	—	(66)	—
Net earnings	20	35	31	(66)	20
Other comprehensive income	14	18	16	(34)	14
Comprehensive income	34	53	47	(100)	34

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

	For the three months ended March 31, 2016				
CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Consolidating Adjustments**	**Consolidated**
	$	$	$	$	$
Sales	—	1,061	521	(295)	1,287
Operating expenses					
Cost of sales, excluding depreciation and amortization	—	967	378	(295)	1,050
Depreciation and amortization	—	65	24	—	89
Selling, general and administrative	8	27	68	—	103
Impairment of property, plant and equipment	—	21	—	—	21
Closure and restructuring costs	—	2	—	—	2
Other operating loss, net	—	—	4	—	4
	8	1,082	474	(295)	1,269
Operating (loss) income	(8)	(21)	47	—	18
Interest expense (income), net	16	9	(8)	—	17
(Loss) earnings before income taxes	(24)	(30)	55	—	1
Income tax (benefit) expense	(5)	(8)	10	—	(3)
Share in earnings of equity accounted investees	23	45	—	(68)	—
Net earnings	4	23	45	(68)	4
Other comprehensive income	114	115	85	(200)	114
Comprehensive income	118	138	130	(268)	118

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

	March 31, 2017				
CONDENSED CONSOLIDATING BALANCE SHEET	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	$	$	$	$	$
Assets					
Current assets					
Cash and cash equivalents	7	5	99	—	111
Receivables	—	359	303	—	662
Inventories	—	494	228	—	722
Prepaid expenses	11	17	6	—	34
Income and other taxes receivable	—	8	13	(6)	15
Intercompany accounts	371	311	202	(884)	—
Total current assets	389	1,194	851	(890)	1,544
Property, plant and equipment, net	—	1,958	831	—	2,789
Goodwill	—	313	240	—	553
Intangible assets, net	—	276	331	—	607
Investments in affiliates	4,030	2,726	—	(6,756)	—
Intercompany long-term advances	6	80	1,432	(1,518)	—
Other assets	14	12	106	—	132
Total assets	4,439	6,559	3,791	(9,164)	5,625
Liabilities and shareholders' equity					
Current liabilities					
Bank indebtedness	—	2	—	—	2
Trade and other payables	45	366	222	—	633
Intercompany accounts	203	214	467	(884)	—
Income and other taxes payable	21	—	10	(6)	25
Long-term debt due within one year	63	—	1	—	64
Total current liabilities	332	582	700	(890)	724
Long-term debt	822	299	67	—	1,188
Intercompany long-term loans	582	936	—	(1,518)	—
Deferred income taxes and other	—	542	130	—	672
Other liabilities and deferred credits	18	170	168	—	356
Shareholders' equity	2,685	4,030	2,726	(6,756)	2,685
Total liabilities and shareholders' equity	4,439	6,559	3,791	(9,164)	5,625

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

	December 31, 2016				
CONDENSED CONSOLIDATING BALANCE SHEET	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	$	$	$	$	$
Assets					
Current assets					
Cash and cash equivalents	17	14	94	—	125
Receivables	—	305	308	—	613
Inventories	—	548	211	—	759
Prepaid expenses	15	19	6	—	40
Income and other taxes receivable	—	16	15	—	31
Intercompany accounts	331	184	47	(562)	—
Total current assets	363	1,086	681	(562)	1,568
Property, plant and equipment, net	—	2,000	825	—	2,825
Goodwill	—	313	237	—	550
Intangible assets, net	—	279	329	—	608
Investments in affiliates	3,976	2,678	—	(6,654)	—
Intercompany long-term advances	6	80	1,411	(1,497)	—
Other assets	15	18	103	(7)	129
Total assets	4,360	6,454	3,586	(8,720)	5,680
Liabilities and shareholders' equity					
Current liabilities					
Bank indebtedness	—	12	—	—	12
Trade and other payables	48	391	217	—	656
Intercompany accounts	136	115	311	(562)	—
Income and other taxes payable	16	—	6	—	22
Long-term debt due within one year	63	—	—	—	63
Total current liabilities	263	518	534	(562)	753
Long-term debt	841	299	78	—	1,218
Intercompany long-term loans	560	937	—	(1,497)	—
Deferred income taxes and other	—	556	126	(7)	675
Other liabilities and deferred credits	20	168	170	—	358
Shareholders' equity	2,676	3,976	2,678	(6,654)	2,676
Total liabilities and shareholders' equity	4,360	6,454	3,586	(8,720)	5,680

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS	For the three months ended March 31, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	$	$	$	$	$
Operating activities					
Net earnings	20	35	31	(66)	20
Changes in operating and intercompany assets and liabilities and non-cash items, included in net earnings	—	(20)	25	66	71
Cash flows from operating activities	20	15	56	—	91
Investing activities					
Additions to property, plant and equipment	—	(15)	(19)	—	(34)
Cash flows used for investing activities	—	(15)	(19)	—	(34)
Financing activities					
Dividend payments	(26)	—	—	—	(26)
Net change in bank indebtedness	—	(10)	(1)	—	(11)
Change in revolving credit facility	(20)	—	—	—	(20)
Repayments of receivables securitization facility	—	—	(15)	—	(15)
Increase in long-term advances to related parties	—	—	(17)	17	—
Decrease in long-term advances to related parties	16	1	—	(17)	—
Cash flows used for financing activities	(30)	(9)	(33)	—	(72)
Net (decrease) increase in cash and cash equivalents	(10)	(9)	4	—	(15)
Impact of foreign exchange on cash	—	—	1	—	1
Cash and cash equivalents at beginning of period	17	14	94	—	125
Cash and cash equivalents at end of period	7	5	99	—	111

(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 16. SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

	For the three months ended March 31, 2016				
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Consolidating Adjustments**	**Consolidated**
	$	$	$	$	$
Operating activities					
Net earnings	4	23	45	(68)	4
Changes in operating and intercompany assets and liabilities and non-cash items, included in net earnings	(9)	29	5	68	93
Cash flows (used for) provided from operating activities	(5)	52	50	—	97
Investing activities					
Additions to property, plant and equipment	—	(80)	(20)	—	(100)
Cash flows used for investing activities	—	(80)	(20)	—	(100)
Financing activities					
Dividend payments	(25)	—	—	—	(25)
Stock repurchase	(10)	—	—	—	(10)
Net change in bank indebtedness	—	7	—	—	7
Proceeds from receivables securitization facility	—	—	20	—	20
Repayments of receivables securitization facility	—	—	(20)	—	(20)
Repayments of long-term debt	—	(1)	—	—	(1)
Increase in long-term advances to related parties	—	—	(39)	39	—
Decrease in long-term advances to related parties	14	25	—	(39)	—
Cash flows (used for) provided from financing activities	(21)	31	(39)	—	(29)
Net (decrease) increase in cash and cash equivalents	(26)	3	(9)	—	(32)
Impact of foreign exchange on cash	—	—	3	—	3
Cash and cash equivalents at beginning of period	49	2	75	—	126
Cash and cash equivalents at end of period	23	5	69	—	97

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations should be read in conjunction with Domtar Corporation's unaudited interim financial statements and notes thereto included in this Quarterly Report on Form 10-Q. The MD&A should also be read in conjunction with the historical financial information contained in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission ("SEC") on February 24, 2017. Throughout this MD&A, unless otherwise specified, "Domtar Corporation," "the Company," "Domtar," "we," "us" and "our" refers to Domtar Corporation and its subsidiaries. Domtar Corporation's common stock is listed on the New York Stock Exchange and the Toronto Stock Exchange. Except where otherwise indicated, all financial information reflected herein is determined on the basis of accounting principles generally accepted in the United States.

The information contained on our website, www.domtar.com, is not incorporated by reference into this Form 10-Q and should in no way be construed as a part of this or any other report that we file with or furnish to the SEC.

In accordance with industry practice, in this report, the term "ton" or the symbol "ST" refers to a short ton, an imperial unit of measurement equal to 0.9072 metric tons. The term "metric ton" or the symbol "ADMT" refers to an air dry metric ton. In this report, unless otherwise indicated, all dollar amounts are expressed in U.S. dollars, and the term "dollars" and the symbol "$" refer to U.S. dollars. In the following discussion, unless otherwise noted, references to increases or decreases in income and expense items, prices, contribution to net earnings (loss), and shipment volumes are based on three month periods ended March 31, 2017 and 2016. The three months periods are also referred to as the first quarter of 2017 and 2016. Reference to notes refers to footnotes to the consolidated financial statements and notes thereto included in Item 1 of this Form 10-Q.

This MD&A of financial condition and results of operations is intended to provide investors with an understanding of our recent performance, financial condition and outlook. Topics discussed and analyzed include:

- Overview
- Highlights for the three month period ended March 31, 2017
- Outlook
- Consolidated Results of Operations and Segment Review
- Liquidity and Capital Resources

OVERVIEW

We design, manufacture, market and distribute a wide variety of fiber-based products, including communication papers, specialty and packaging papers, and absorbent hygiene products. The foundation of our business is a network of wood fiber converting assets that produce paper grade, fluff and specialty pulp. More than 50% of our pulp production is consumed internally to manufacture paper and other consumer products with the balance sold as market pulp. We are the largest integrated marketer of uncoated freesheet paper in North America serving a variety of customers, including merchants, retail outlets, stationers, printers, publishers, converters and end-users. We are also a marketer and producer of a broad line of incontinence care products as well as infant diapers. To learn more, visit www.domtar.com.

We have two reportable segments as described below, which also represent our two operating segments. Each reportable segment offers different products and services and requires different manufacturing processes, technology and/or marketing strategies. The following summary briefly describes the operations included in each of our reportable segments.

Pulp and Paper: Our Pulp and Paper segment consists of the design, manufacturing, marketing and distribution of communication, specialty and packaging papers, as well as softwood, fluff and hardwood market pulp.

Personal Care: Our Personal Care segment consists of the design, manufacturing, marketing and distribution of absorbent hygiene products.

HIGHLIGHTS FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2017

- Operating income and net earnings increased by 133% and 400%, respectively, from the first quarter of 2016
- Sales increased by 1% from the first quarter of 2016. Our Personal Care volumes were up, in part due to the acquisition of Home Delivery Incontinent Supplies ("HDIS") on October 1, 2016. Our pulp volumes were up while our manufactured paper volumes were down, when compared to the first quarter of 2016. Net average selling prices for pulp and paper were down from the first quarter of 2016
- Mechanical failure on the largest turbine generator at our Kamloops mill, in the first quarter of 2017, negatively impacted our results by approximately $6 million
- We paid $26 million in dividends

	Three months ended			
			Variance	
FINANCIAL HIGHLIGHTS	**March 31, 2017**	March 31, 2016	$	%
(In millions of dollars, unless otherwise noted)				
Sales	**$ 1,304**	$ 1,287	$ 17	1%
Operating income	**42**	18	24	133%
Net earnings	**20**	4	16	400%
Net earnings per common share (in dollars)[1]:				
Basic	**$ 0.32**	$ 0.06	$ 0.26	433%
Diluted	**$ 0.32**	$ 0.06	$ 0.26	433%

	At March 31, 2017	At December 31, 2016
Total assets	**$ 5,625**	$ 5,680
Total long-term debt, including current portion	**$ 1,252**	$ 1,281

1 See Note 4 "Earnings per Common Share" of the financial statements in this Quarterly Report on Form 10-Q for more information on the calculation of net earnings per common share.

OUTLOOK

For the remainder of the year, we anticipate paper shipments to be in-line with market demand. We expect to benefit from recently announced pulp price increases, while mix should continue to improve as we convert to more fluff pulp sales at our Ashdown mill. Costs, including freight, labor and chemicals are expected to marginally increase. In Personal Care, market growth, investments in advertising and promotion in addition to new customer wins should drive higher sales, while raw material costs are expected to marginally increase.

CONSOLIDATED RESULTS OF OPERATIONS

This section presents a discussion and analysis of our first quarter of 2017 and 2016 net sales, operating income (loss) and other information relevant to the understanding of our results of operations.

ANALYSIS OF NET SALES

By Business Segment

	Three months ended		Variance	
	March 31, 2017	March 31, 2016	$	%
Pulp and Paper	**$ 1,073**	$ 1,085	*(12)*	*-1%*
Personal Care	**249**	216	*33*	*15%*
Total for reportable segments	**1,322**	1,301	*21*	*2%*
Intersegment sales	**(18)**	(14)	*(4)*	
Consolidated	**1,304**	1,287	*17*	*1%*
Shipments				
Paper - manufactured (in thousands of ST)	**745**	786	*(41)*	*-5%*
Communication Papers	**622**	657	*(35)*	*-5%*
Specialty and Packaging	**123**	129	*(6)*	*-5%*
Paper - sourced from third parties (in thousands of ST)	**29**	32	*(3)*	*-9%*
Paper - total (in thousands of ST)	**774**	818	*(44)*	*-5%*
Pulp (in thousands of ADMT)	**453**	369	*84*	*23%*

ANALYSIS OF CHANGES IN SALES

	First quarter of 2017 versus First quarter of 2016 — % Change in Net Sales due to			
	Net Price	Volume / Mix	Currency	**Total**
Pulp and Paper	-2%	1%	-%	**-1%**
Personal Care	-1%	18% (a)	-2%	**15%**
Consolidated sales	-2%	3%	-%	**1%**

Commentary:

(a) Includes sales of HDIS acquired on October 1, 2016.

ANALYSIS OF OPERATING INCOME (LOSS)

By Business Segment

	Three months ended		Variance	
	March 31, 2017	March 31, 2016	$	%
Operating income (loss)				
Pulp and Paper	**34**	19	*15*	*79%*
Personal Care	**16**	14	*2*	*14%*
Corporate	**(8)**	(15)	*7*	*47%*
Consolidated operating income (loss)	**42**	18	*24*	*133%*

First quarter of 2017 versus First quarter of 2016

	$ Change in Segmented Operating Income (Loss) due to								
	Volume/Mix	Net Price	Input Costs (b)	Operating expenses (c)	Currency	Depreciation/ impairment (d)	Restructuring (e)	Other Income/ expense (f)	**Total**
Pulp and Paper	(10)	(22)	1	6	5	30	2	3	**15**
Personal Care	4 (a)	(3)	5	(3)	(2)	1	—	—	**2**
Corporate	—	—	—	5	—	—	—	2	**7**
Consolidated operating income (loss)	(6)	(25)	6	8	3	31	2	5	**24**

(a) Includes results of HDIS acquired on October 1, 2016.
(b) Includes raw materials (such as fiber, chemicals, nonwovens and super absorbent polymers) and energy expenses.
(c) Includes maintenance, freight costs, selling, general and administrative ("SG&A") expenses and other costs.
(d) In the first quarter of 2017, we did not record any accelerated depreciation compared to $21 million of accelerated depreciation related to the conversion of a paper machine to a high quality fluff pulp line at our Ashdown mill, recorded in the first quarter of 2016. Depreciation charges were lower by $10 million in the first quarter of 2017, excluding foreign currency impact.
(e) In the first quarter of 2017, there were no restructuring charges. In the first quarter of 2016, we incurred restructuring charges related to the conversion at Ashdown described above ($1 million) and severance and termination costs ($1 million).
(f)

First quarter of 2017 operating expenses/income includes:
- Foreign currency loss on working capital items ($1 million)
- Other income ($2 million)

First quarter of 2016 operating expenses/income includes:
- Foreign currency loss on working capital items ($4 million)

Commentary – First quarter of 2017 compared to First quarter of 2016

Interest Expense, net

We incurred $17 million of net interest expense in the first quarter of 2017 compared to net interest expense of $17 million in the first quarter of 2016. Interest expense was impacted by the maturity of the 9.5% Notes due in August 2016 offset by a reduction in capitalized interest.

Income Taxes

In the first quarter of 2017, our income tax expense was $5 million, consisting of $9 million of current income tax expense and a deferred income tax benefit of $4 million. This compares to an income tax benefit of $3 million in the first quarter of 2016, consisting of no current income tax expense and a deferred income tax benefit of $3 million. We received income tax refunds, net of payments, of $8 million during the first quarter of 2017. The effective tax rate was 20% compared with an effective tax rate of -300% in the first quarter of 2016. The effective tax rate for the first quarter of 2017 was favorably impacted by the recognition of $1 million of previously unrecognized tax benefits due to a statute expiration in a foreign jurisdiction and a U.S. state tax audit finalization. The effective tax rate for the first quarter of 2016 was impacted by the approval of a state tax credit in the U.S.

Commentary – Segment Review

Pulp and Paper Segment

Sales in our Pulp and Paper segment decreased by $12 million, or 1% when compared to sales in the first quarter of 2016. This decrease in sales is mostly due to a decrease in net average selling prices for pulp and paper as well as a decrease in our paper sales volumes. This decrease was partially offset by an increase in our pulp sales volumes.

Operating income in our Pulp and Paper segment amounted to $34 million in the first quarter of 2017, an increase of $15 million, when compared to operating income of $19 million in the first quarter of 2016. Our results were positively impacted by:

- Lower depreciation charges ($30 million) due to accelerated depreciation related to our 2014 decision to convert a paper machine at our Ashdown facility to a high quality fluff pulp line in the first quarter of 2016 and lower depreciation charges due to certain assets being fully depreciated
- Lower operating expenses ($6 million) mostly related to lower maintenance costs due to the timing of major maintenance when compared to the first quarter of 2016, partially offset by lower productivity and higher salaries and wages
- Positive impact of our hedging program, partially offset by a stronger Canadian dollar on our Canadian denominated expenses ($5 million)
- Lower other income/expense ($3 million) mostly due to a decrease in foreign exchange loss on working capital
- Lower restructuring costs mostly related to the conversion of a paper machine to a high quality fluff pulp line at our Ashdown mill, recorded in the first quarter of 2016 ($2 million)
- Lower input costs ($1 million) mostly related to lower fiber costs, partially offset by higher energy costs mostly due to the mechanical failure at our Kamloops mill mentioned above and chemicals costs

These increases were partially offset by:

- Lower average selling prices for pulp and paper ($22 million)
- Lower volume and mix ($10 million) mostly related to lower volume of paper partially offset by higher volume of pulp

Personal Care Segment

Sales in our Personal Care segment increased by $33 million, or 15% when compared to sales in the first quarter of 2016. This increase was driven by higher volume/mix, in part due to higher sales volume as well as the acquisition of HDIS on October 1, 2016. This increase was partially offset by unfavorable foreign exchange, mostly due to the fluctuation between the U.S dollar and the Euro as well as lower selling prices.

Operating income in our Personal Care segment amounted to $16 million in the first quarter of 2017, an increase of $2 million, when compared to operating income of $14 million in the first quarter of 2016. Our results were positively impacted by:

- Lower input costs ($5 million) mostly due to favorable pulp and super absorbent polymers pricing as well as insourcing initiatives
- Higher sales volume and mix ($4 million)
- Lower depreciation charges ($1 million)

These increases were partially offset by:

- Unfavorable average net selling prices ($3 million)
- Higher operating expenses ($3 million) mostly due to higher freight costs and higher salaries and wages
- Unfavorable foreign exchange mostly between the GBP and the Euro and the U.S. Dollar and Euro, net of our hedging program ($2 million)

STOCK-BASED COMPENSATION EXPENSE

For the first quarter of 2017, stock-based compensation expense recognized in our results of operations was $2 million for all outstanding awards which includes the mark-to-market recovery related to liability awards of $3 million. This compares to a stock-based compensation expense of $4 million for all outstanding awards which includes the mark-to-market expense related to liability awards of nil in the first quarter of 2016. Compensation costs for performance awards are based on management's best estimate of the final performance measurement.

LIQUIDITY AND CAPITAL RESOURCES

Our principal cash requirements are for ongoing operating costs, pension contributions, working capital and capital expenditures, as well as principal and interest payments on our debt and income tax payments. We expect to fund our liquidity needs primarily with internally generated funds from our operations and, to the extent necessary, through borrowings under our contractually committed $700 million credit facility, of which $670 million is currently undrawn and available, or through our $150 million receivables securitization facility, of which $47 million is currently undrawn and available. Under adverse market conditions, there can be no assurance that these agreements would be available or sufficient. See "Capital Resources" below.

Our ability to make payments on the requirements mentioned above will depend on our ability to generate cash in the future, which is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our credit and receivable securitization facilities and debt indentures impose various restrictions and covenants on us that could limit our ability to respond to market conditions, to provide for unanticipated capital investments or to take advantage of business opportunities.

A portion of our cash is held outside the U.S. by foreign subsidiaries. The earnings of the foreign subsidiaries, which reflect full provision for local income taxes, are currently indefinitely reinvested in foreign operations. We do not intend on repatriating those funds and no provision is made for income taxes that would be payable upon the distribution of earnings from foreign subsidiaries as computation of these amounts is not practical.

Operating Activities

Our operating cash flow requirements are primarily for salaries and benefits, the purchase of raw materials, including fiber and energy and other expenses such as income tax and property taxes.

Cash flows from operating activities totaled $91 million in the first quarter of 2017, a $6 million decrease compared to cash flows from operating activities of $97 million in the first quarter of 2016. This decrease in cash flows from operating activities is primarily due to a decrease in profitability when excluding the non-cash impairment charge of $21 million in the first quarter of 2016, partially offset by a decrease in working capital requirements in the first quarter of 2017 when compared to the first quarter of 2016. We received income tax refunds, net of payments of $8 million in the first quarter of 2017 compared to income tax payments, net of refunds of $6 million during the first quarter of 2016.

Investing Activities

Cash flows used for investing activities in the first quarter of 2017 amounted to $34 million, a $66 million decrease compared to cash flows used for investing activities of $100 million in the first quarter of 2016.

Additions to property, plant and equipment in the first quarter of 2017 of $34 million compared to additions to property, plant and equipment of $100 million in the first quarter of 2016.

Our capital expenditures for 2017 are expected to be between $210 million and $230 million.

Financing Activities

Cash flows used for financing activities totaled $72 million in the first quarter of 2017 compared to cash flows used for financing activities of $29 million in the first quarter of 2016.

The use of cash in the first quarter of 2017 was primarily the result of dividend payments ($26 million) and net repayments of borrowings under our credit facilities (revolver and receivables securitization) ($35 million) and a decrease in our bank indebtedness ($11 million).

The use of cash in the first quarter of 2016 was primarily the result of dividend payments ($25 million) and the repurchase of our common stock ($10 million). These were partially offset by an increase in our bank indebtedness ($7 million).

Capital Resources

Net indebtedness, consisting of bank indebtedness and long-term debt, net of cash and cash equivalents, was $1,143 million as of March 31, 2017 compared to $1,168 million as of December 31, 2016.

Notes Maturity

Our 9.5% Notes, in the aggregate principal amount of $39 million, matured on August 1, 2016.

Term Loan

In the third quarter of 2015, a wholly owned subsidiary of Domtar borrowed $300 million under an unsecured 10-year Term Loan Agreement that matures on July 20, 2025, with certain domestic banks. The facility was fully drawn down on August 19, 2015. The Company and certain significant domestic subsidiaries of the Company unconditionally guarantee any obligations from time to time arising under the Term Loan Agreement. On August 18, 2016, Domtar entered into an amendment to its Term Loan Agreement, pursuant to which, among other things, certain insignificant subsidiaries were released from their guarantees of the borrower's obligations under the Term Loan Agreement.

Borrowings under the Term Loan Agreement bear interest at LIBOR plus a margin of 1.875%. The Term Loan Agreement contains customary covenants, including two financial covenants: (i) an interest coverage ratio, as defined in the Term Loan Agreement, that must be maintained at a level of not less than 3 to 1 and (ii) a leverage ratio, as defined in the Term Loan Agreement that must be maintained at a level of not greater than 3.75 to 1. At March 31, 2017, we were in compliance with these financial covenants.

Revolving Credit Facility

In August 2016, we amended and restated our unsecured revolving credit facility (the "Credit Agreement") with certain domestic and foreign banks, increasing the amount available from $600 million to $700 million. The amendment also extended the Credit Agreement's maturity date from October 3, 2019 to August 18, 2021. The amendment also allows certain foreign subsidiaries to be borrowers under the facility. The maturity date of the facility may be extended by one year and the lender commitments may be increased by up to $400 million, subject to lender approval and customary requirements.

Borrowings by the Company under the Credit Agreement are guaranteed by our significant domestic subsidiaries. Borrowings by foreign borrowers under the Credit Agreement are guaranteed by the Company, our significant domestic subsidiaries and certain of our foreign significant subsidiaries. The amendment allowed certain insignificant domestic subsidiaries that were previously guarantors, to be released from their guarantees of any obligations under the credit facility.

Borrowings under the Credit Agreement bear interest at LIBOR, EURIBOR, Canadian bankers' acceptance or prime rate, as applicable, plus a margin linked to our credit rating. In addition, we pay facility fees quarterly at rates dependent on our credit ratings.

The Credit Agreement contains customary covenants and events of default for transactions of this type, including two financial covenants: (i) an interest coverage ratio, as defined in the Credit Agreement, that must be maintained at a level of not less than 3 to 1 and (ii) a leverage ratio, as defined in the Credit Agreement that must be maintained at a level of not greater than 3.75 to 1 (or 4.00 to 1 upon the occurrence of certain qualifying material acquisitions). At March 31, 2017, we were in compliance with these financial covenants. At March 31, 2017, we had $30 million of borrowing (March 31, 2016 – $50 million) and no outstanding letters of credit (March 31, 2016 – nil), leaving $670 million unused and available under this facility.

Receivables Securitization

We have a $150 million receivables securitization facility that matures in March 2019.

At March 31, 2017, borrowings under the receivables securitization facility amounted to $55 million and $48 million of letters of credit were issued under the program (March 31, 2016– nil and $39 million, respectively). The program contains certain termination events, which include, but are not limited to, matters related to receivable performance, certain defaults occurring under the credit facility or our failure to repay or satisfy material obligations. At March 31, 2017, we had $47 million unused and available under this facility.

Common Stock

On February 21, 2017, our Board of Directors approved a quarterly dividend of $0.415 per share to be paid to holders of our common stock. Total dividends of approximately $26 million were paid on April 17, 2017 to shareholders of record on April 3, 2017.

On May 3, 2017, our Board of Directors approved a quarterly dividend of $0.415 per share to be paid to holders of our common stock. This dividend is to be paid on July 17, 2017, to shareholders of record on July 3, 2017.

OFF BALANCE SHEET ARRANGEMENTS

In the normal course of business, we finance certain of our activities off balance sheet through operating leases.

GUARANTEES

Indemnifications

In the normal course of business, we offer indemnifications relating to the sale of our businesses and real estate. In general, these indemnifications may relate to claims from past business operations, the failure to abide by covenants and the breach of representations and warranties included in sales agreements. Typically, such representations and warranties relate to taxation, environmental, product and employee matters. The terms of these indemnification agreements are generally for an unlimited period of time. At March 31, 2017, we were unable to estimate the potential maximum liabilities for these types of indemnification guarantees as the amounts are contingent upon the outcome of future events, the nature and likelihood of which cannot be reasonably estimated at this time. Accordingly, no provision has been recorded. These indemnifications have not yielded significant expenses in the past.

Pension Plans

We have indemnified and held harmless the trustees of our pension funds, and the respective officers, directors, employees and agents of such trustees, from any and all costs and expenses arising out of the performance of their obligations under the relevant trust agreements, including in respect of their reliance on authorized instructions from us or for failing to act in the absence of authorized instructions. These indemnifications survive the termination of such agreements. At March 31, 2017, we have not recorded a liability associated with these indemnifications, as we do not expect to make any payments pertaining to these indemnifications.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to Note 2 “Recent Accounting Pronouncements,” of the financial statements in this Quarterly Report on Form 10-Q.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates, assumptions and choices amongst acceptable accounting methods that affect our reported results of operations and financial position. Critical accounting estimates pertain to matters that contain a significant level of management estimates about future events, encompass the most complex and subjective judgments and are subject to a fair degree of measurement uncertainty. On an ongoing basis, management reviews its estimates, including those related to environmental matters and asset retirement obligations, impairment and useful lives of long-lived assets, closure and restructuring costs, goodwill and intangible assets impairment, pension and other post-retirement benefit plans, income taxes, business combinations and contingencies related to legal claims. These critical accounting estimates and policies have been reviewed with the Audit Committee of our Board of Directors. We believe these accounting policies, and others, should be reviewed as they are essential to understanding our results of operations, cash flows and financial position. Actual results could differ from those estimates.

There has not been any material change to our policies since December 31, 2016. For more details on critical accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2016.

FORWARD-LOOKING STATEMENTS

The information included in this Quarterly Report on Form 10-Q contains forward-looking statements relating to trends in, or representing management’s beliefs about, Domtar Corporation’s future growth, results of operations, performance and business prospects and opportunities. These forward-looking statements are generally denoted by the use of words such as “anticipate”, “believe”, “expect”, “intend”, “aim”, “target”, “plan”, “continue”, “estimate”, “project”, “may”, “will”, “should” and similar expressions. These statements reflect management’s current beliefs and are based on information currently available to management. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to known and unknown risks and uncertainties and other factors that could cause actual results to differ materially from historical results or those anticipated. Accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will occur, or if any occurs, what effect they will have on Domtar Corporation’s results of operations or financial condition. These factors include, but are not limited to:

- continued decline in usage of fine paper products in our core North American market;
- our ability to implement our business diversification initiatives, including strategic acquisitions;
- product selling prices;
- raw material prices, including wood fiber, chemical and energy;
- conditions in the global capital and credit markets, and the economy generally, particularly in the U.S., Canada and Europe;
- performance of Domtar Corporation’s manufacturing operations, including unexpected maintenance requirements;
- the level of competition from domestic and foreign producers;
- the effect of, or change in, forestry, land use, environmental and other governmental regulations (including tax), and accounting regulations;
- the effect of weather and the risk of loss from fires, floods, windstorms, hurricanes and other natural disasters;
- transportation costs;
- the loss of current customers or the inability to obtain new customers;
- legal proceedings;
- changes in asset valuations, including impairment of property, plant and equipment, inventory, accounts receivable or other assets for impairment or other reasons;
- changes in currency exchange rates, particularly the relative value of the U.S. dollar to the Canadian dollar and European currencies;

- the effect of timing of retirements and changes in the market price of Domtar Corporation's common stock on charges for stock-based compensation;
- performance of pension fund investments and related derivatives, if any; and
- the other factors described under "Risk Factors", in item 1A of our Annual Report on Form 10-K, for the year ended December 31, 2016.

You are cautioned not to unduly rely on such forward-looking statements, which speak only as of the date made, when evaluating the information presented in this Quarterly Report on Form 10-Q. Unless specifically required by law, Domtar Corporation disclaims any obligation to update or revise these forward-looking statements to reflect new events or circumstances.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Information relating to quantitative and qualitative disclosure about market risk is contained in our Annual Report on Form 10-K for the year ended December 31, 2016. There has not been any material change in our exposure to market risk since December 31, 2016. A full discussion on Quantitative and Qualitative Disclosure about Market Risk, is found in Note 3 "Derivatives and Hedging Activities and Fair Value Measurement," of the financial statements in this Quarterly Report on Form 10-Q.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports under the Securities and Exchange Act of 1934, as amended ("Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As of March 31, 2017, an evaluation was performed by members of management, at the direction and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2017, our disclosure controls and procedures were effective.

Change in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting during the period covered by this report.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 14 "Commitments and Contingencies" of the financial statements in this Quarterly Report on Form 10-Q for the discussion regarding legal proceedings.

There have been no material developments in legal proceedings. For a description of previously reported legal proceedings refer to Part I, Item 3, "Legal Proceedings," of our Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 1A. RISK FACTORS

Our Annual Report on Form 10-K for the year ended December 31, 2016, contains important risk factors that could cause our actual results to differ materially from those projected in any forward-looking statement. There were no material changes to the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share repurchase activity under our share repurchase program was as follows during the three-month period ended March 31, 2017:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share		(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Programs (in 000s)	
January 1 through January 31, 2017	—	$	—	—	$	322,572
February 1 through February 28, 2017	—	$	—	—	$	322,572
March 1 through March 31, 2017	—	$	—	—	$	322,572
	—	$	—	—		

(1) During the first quarter of 2017, we did not repurchase any shares under our stock repurchase program (the "Program"). We currently have $323 million of remaining availability under our Program. The Program may be suspended, modified or discontinued at any time and we have no obligation to repurchase any amount of our common stock under the Program. The Program has no set expiration date. We repurchase our common stock, from time to time, in part to reduce the dilutive effects of our stock options and awards and to improve shareholders' returns. The timing and amount of stock repurchases will depend on a variety of factors, including market conditions, availability under the program as well as corporate and regulatory considerations. All shares repurchased are recorded as Treasury stock on the Consolidated Balance Sheets under the par value method at $0.01 per share.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by reference to: Form	Exhibit	Filing Date
4.1	Twelfth Supplemental Indenture, dated as of January 23, 2017, among Home Delivery Incontinent Supplies Co, Domtar Corporation and The Bank of New York Mellon, as trustee, relating to Home Delivery Incontinent Supplies Co's guarantee of the obligations under the Indenture			
12.1	Computation of Ratio of Earnings to Fixed Charges			
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
32.1	Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			

Exhibit Number	Exhibit Description	Incorporated by reference to: Form	Exhibit	Filing Date
32.2	Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
101.INS	XBRL Instance Document			
101.SCH	XBRL Taxonomy Extension Schema			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase			
101.DEF	XBRL Taxonomy Extension Definition Linkbase			
101.LAB	XBRL Taxonomy Extension Label Linkbase			
101.PRE	XBRL Extension Presentation Linkbase			

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

DOMTAR CORPORATION

Date: May 5, 2017

By: /s/ Daniel Buron
Daniel Buron
Senior Vice-President and Chief Financial Officer

By: /s/ Razvan L. Theodoru
Razvan L. Theodoru
Vice-President, Corporate Law and Secretary

Exhibit 4.1

TWELFTH SUPPLEMENTAL INDENTURE
FOR ADDITIONAL NOTE GUARANTEE

This Twelfth Supplemental Indenture, dated as of January 23, 2017 (this "Supplemental Indenture"), among Home Delivery Incontinent Supplies Co., a Missouri corporation (the "New Subsidiary Guarantor"), Domtar Corporation, a Delaware corporation (together with its successors and assigns, the "Company") and The Bank of New York Mellon, as successor to The Bank of New York, as Trustee (the "Trustee"), under the Indenture referred to below.

W I T N E S S E T H:

WHEREAS, the Company, the subsidiary guarantors party thereto (the "Subsidiary Guarantors") and the Trustee have heretofore executed and delivered a Senior Indenture, dated as of November 19, 2007 (as supplemented by the Supplemental Indenture, dated as of February 15, 2008, the Second Supplemental Indenture, dated as of February 20, 2008, the Third Supplemental Indenture, dated as of June 9, 2009, the Fourth Supplemental Indenture, dated as of June 23, 2011, the Fifth Supplemental Indenture, dated as of September 7, 2011, the Sixth Supplemental Indenture, dated as of March 16, 2012, the Seventh Supplemental Indenture, dated as of May 21, 2012, the Eighth Supplemental Indenture, dated as of August 23, 2012, the Ninth Supplemental Indenture, dated as of July 31, 2013, the Tenth Supplemental Indenture, dated as of November 26, 2013, and the Eleventh Supplemental Indenture, dated as of November 4, 2015, amended, waived or otherwise modified, the "Indenture"), providing for the issuance from time to time of series of the Company's Securities (as defined in the Indenture);

WHEREAS, pursuant to Section 1011 of the Indenture, the Company is required to cause each U.S. Subsidiary (as defined in the Indenture) that guarantees indebtedness of the Company or any of the Company's subsidiaries to execute and deliver to the Trustee a supplemental indenture pursuant to which such U.S. Subsidiary will unconditionally guarantee, jointly and severally with each other Subsidiary Guarantor, the Company's full and prompt payment of the principal of, premium, if any, and interest on the Securities on a senior basis and all other obligations under the Indenture; and

WHEREAS, pursuant to Section 901 of the Indenture, the Company and the Trustee are authorized to execute and deliver this Supplemental Indenture to supplement the Indenture, without the consent of any Holder;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the New Subsidiary Guarantor, the Company and the Trustee mutually covenant and agree for the equal and ratable benefit of the holders of the Securities as follows:

ARTICLE I
DEFINITIONS

Section 1.1. Defined Terms. Unless otherwise defined in this Supplemental Indenture, terms defined in the Indenture are used herein as therein defined.

ARTICLE II
AGREEMENT TO BE BOUND; GUARANTEE

Section 2.1. Agreement to be Bound. Subject to the provisions of Article Fourteen of the Indenture, the New Subsidiary Guarantor hereby becomes a party to the Indenture as a Subsidiary Guarantor and as such will have all of the rights and be subject to all of the obligations and agreements of a Subsidiary Guarantor under the Indenture. The New Subsidiary Guarantor hereby agrees to be bound by all of the provisions of the Indenture applicable to a Subsidiary Guarantor and to perform all of the obligations and agreements of a Subsidiary Guarantor under the Indenture.

Section 2.2. Guarantee. The New Subsidiary Guarantor hereby fully, unconditionally and irrevocably guarantees as primary obligor and not merely as surety, jointly and severally with each other Subsidiary Guarantor, to each Holder of the Securities and the Trustee, the full and punctual payment when due, whether at maturity, by acceleration, by redemption or otherwise, of the principal of, premium, if any, and interest on the Securities and all other obligations and liabilities of the Company under the Indenture, all as more fully set forth in Article Fourteen thereof.

ARTICLE III
MISCELLANEOUS

Section 3.1. Notices. Any notice or communication delivered to the Company under the provisions of the Indenture shall constitute notice to the New Subsidiary Guarantor.

Section 3.2. Parties. Nothing expressed or mentioned herein is intended or shall be construed to give any Person, firm or corporation, other than the Holders and the Trustee, any legal or equitable right, remedy or claim under or in respect of this Supplemental Indenture or the Indenture or any provision herein or therein contained.

Section 3.3. Governing Law, etc. This Supplemental Indenture shall be governed by the provisions set forth in Section 112 of the Indenture.

Section 3.4. Severability. In case any provision in this Supplemental Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and such provision shall be ineffective only to the extent of such invalidity, illegality or unenforceability.

Section 3.5. Ratification of Indenture; Supplemental Indenture Part of Indenture. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and every holder of Securities heretofore or hereafter authenticated and delivered shall be bound hereby. The Trustee makes no representation or warranty as to the validity or sufficiency of this Supplemental Indenture.

Section 3.6. Duplicate and Counterpart Originals. The parties may sign any number of copies of this Supplemental Indenture. One signed copy is enough to prove this Supplemental Indenture. This Supplemental Indenture may be executed in any number of counterparts, each of which so executed shall be an original, but all of them together represent the same agreement.

Section 3.7. Headings. The headings of the Articles and Sections in this Supplemental Indenture have been inserted for convenience of reference only, are not intended to be considered as a part hereof and shall not modify or restrict any of the terms or provisions hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed as of the date first above written.

DOMTAR CORPORATION

By: _
Name:
Title:

HOME DELIVERY INCONTINENT SUPPLIES CO., as New Subsidiary Guarantor

By: _
Name:
Title:

THE BANK OF NEW YORK MELLON,
as Trustee

By: _
Name:
Title:

Exhibit 12.1

Domtar Corporation

Computation of ratio of earnings to fixed charges

(In millions of dollars, unless otherwise noted)

	Three months ended	
	March 31, 2017	March 31, 2016
	$	$
Available earnings:		
Earnings before income taxes	**25**	1
Add fixed charges:		
Interest expense incurred	**17**	16
Amortization of debt expense and discount	**—**	1
Interest portion of rental expense (1)	**2**	2
Total earnings as defined	**44**	20
Fixed charges:		
Interest expense incurred	**17**	16
Amortization of debt expense and discount	**—**	1
Interest portion of rental expense (1)	**2**	2
Total fixed charges	**19**	19
Ratio of earnings to fixed charges	**2.3**	1.1

(1) Interest portion of rental expense is calculated based on the proportion deemed representation of the interest component (i.e 1/3 of rental expense).

Exhibit 31.1

CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John D. Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Domtar Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2017

/s/ John D. Williams
John D. Williams
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION BY THE CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Daniel Buron, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Domtar Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2017

/s/ Daniel Buron
Daniel Buron
Senior Vice-President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies that to his knowledge, the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2017 (the "Form 10-Q") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2017

/s/ John D. Williams
John D. Williams
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION BY THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies that to his knowledge, the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2017 (the "Form 10-Q") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2017

/s/ Daniel Buron
Daniel Buron
Senior Vice-President and Chief Financial Officer