2019

QUARTER ONE

INTERIM REPORT

FOR THE THREE MONTHS ENDED MAR 31. 2019

CANFOR CORPORATION

To Our Shareholders

Canfor Corporation reported its first quarter of 2019 results:

Overview

- First quarter of 2019 reported operating loss of $70 million, adjusted operating income of $5 million (after adjusting for duties and inventory write-downs)
- Adjusted shareholder net loss of $37 million, or $0.29 per share
- Completed acquisition of 70% of the Vida Group of Sweden ("Vida")

Financial Results

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

(millions of Canadian dollars, except per share amounts)	**Q1 2019**	Q4 2018	Q1 2018
Sales	**$ 1,148.7**	$ 1,028.1	$ 1,233.5
Reported operating income (loss) before amortization	**$ 16.6**	$ (9.1)	$ 268.6
Reported operating income (loss)	**$ (69.9)**	$ (79.1)	$ 203.8
Adjusted operating income before amortization[1]	**$ 91.5**	$ 67.5	$ 303.5
Adjusted operating income (loss)[1]	**$ 5.0**	$ (2.5)	$ 238.7
Net income (loss)[2]	**$ (89.5)**	$ (52.4)	$ 112.2
Net income (loss) per share, basic and diluted[2]	**$ (0.71)**	$ (0.42)	$ 0.87
Adjusted net income (loss)[2]	**$ (36.8)**	$ (28.0)	$ 145.4
Adjusted net income (loss) per share, basic and diluted[2]	**$ (0.29)**	$ (0.23)	$ 1.13

Q1 2019 results include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.

[1] Adjusted for countervailing and anti-dumping duties expensed for accounting purposes (expense of $36.3 million in the first quarter of 2019, expense of $39.9 million in the fourth quarter of 2018, expense of $34.9 million in the first quarter of 2018) and inventory write-downs (expense of $38.6 million in the first quarter of 2019 and expense of $36.7 million in the fourth quarter of 2018).

[2] Attributable to equity shareholders of the Company.

For the first quarter of 2019, the Company reported an operating loss of $69.9 million, an improvement of $9.2 million from the operating loss of $79.1 million reported for the fourth quarter of 2018. The modest increase in financial performance reflected improved operating earnings for the pulp and paper segment and one month of Vida earnings following the closing of this acquisition on February 28.

Reported results for the first quarter of 2019 included a net duty expense of $36.3 million, at a combined countervailing duty ("CVD") and anti-dumping duty ("ADD") rate of 26.24%, compared to $39.9 million reported in the fourth quarter of 2018 at a cumulative combined duty deposit rate of 16.14% (for the 18-month administrative review period ended December 31, 2018). Reported results in the first quarter of 2019 also included a $38.6 million lumber and log inventory write-down, in addition to the $36.7 million write-down reported in the fourth quarter of 2018. After adjusting for the aforementioned items, the Company's operating income was $5.0 million for the first quarter of 2019, up $7.5 million from similarly adjusted operating income in the fourth quarter of 2018.

As mentioned, the Company successfully closed its acquisition of 70% of Vida at the end of February. The preliminary purchase price was 4,136 million Swedish Krona ("SEK") (CAD$590.2 million), including estimated working capital. Vida's results are consolidated with those of Canfor and one month of Vida's earnings (subsequently referenced as the Company's European Spruce/Pine/Fir ("SPF") lumber operations) are reflected in the Company's current quarter results within the lumber operating segment.

Adjusted lumber segment operating income included the Company's new European SPF operations results, which combined with a modest increase in average Western Spruce/Pine/Fir ("Western SPF") benchmark lumber prices and increased production in the US South, offset various weather, operational and market-related challenges in Western Canada. In response to the continued weak market conditions, log supply constraints and cost pressures in British Columbia ("BC"), the Company took production curtailments of 95 million board feet in the current quarter, in addition to 100 million board feet of curtailment taken late in the fourth quarter of 2018.

Results in the pulp and paper segment reflected improved production and shipments, which more than offset the impact of lower US-dollar pulp prices to China. Notwithstanding previously announced kiln-related operational disruptions at two of Canfor Pulp Product Inc.'s ("CPPI") Northern Bleach Softwood Kraft ("NBSK") pulp mills in January and challenges associated with severe winter weather, pulp production was up 22% from the previous quarter, largely as a result of significant downtime taken at CPPI's Northwood pulp mill in the comparative period to perform repairs to one of its two recovery boilers.

North American home construction activity was subdued in the first quarter of 2019, in contrast to the repair and remodeling sector which saw strong demand through the period. US housing starts, on a seasonally adjusted basis, averaged 1,193,000 units, broadly in line with the previous quarter; single-family starts, which consume a higher proportion of lumber, were up 2% from the previous quarter, while multi-family starts dropped 2% compared to the same period. Severe winter weather across much of North America disrupted transportation networks and delayed the start of the spring construction season in many regions. In Canada, housing starts averaged 187,000 units on a seasonally adjusted basis, down 14% from the previous quarter, largely reflecting slowing activity in several major cities. Offshore lumber demand was down, particularly in China, as a result of higher inventory levels in the supply chain.

Average Western SPF lumber prices edged upwards in the current quarter, partly in response to industry-wide sawmill production curtailments taken in late 2018 and during the first quarter of 2019. The delay in the usual pick-up of demand from the spring building season contributed to a decline in Western SPF benchmark lumber prices towards the end of the quarter, with prices ending March at US$350 per Mfbm, and slipping further in April. The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US$45 per Mfbm, or 14%, from the previous quarter, at US$372 per Mfbm, with similar increases also seen across most Western SPF wider-width dimensions. The uplift in Western SPF lumber pricing was offset by lower offshore unit sales realizations, increased CVD and ADD expenses in the current quarter, and, to a lesser extent, the slow-down in market demand, all of which resulted in a small increase in Western SPF lumber unit sales realizations quarter-over-quarter.

Southern Yellow Pine ("SYP") lumber unit sales realizations were in line with the prior quarter as price increases for most wider-width SYP dimensions more than offset a 9% decrease in the SYP East 2x4 #2 price. The average European indicative SPF lumber benchmark price (an internally generated benchmark based on delivered price to the largest continental market), at SEK 4,111 per Mfbm, was down SEK 124 per Mfbm, or 3%, from the previous quarter, but remained at near-historical high levels. The Company's European SPF lumber unit sales realizations for March 2019 were slightly ahead of this benchmark.

Total lumber shipments, at 1.19 billion board feet, were 7% higher than the previous quarter, mostly as a result of moderately higher SYP shipments combined with the addition of European SPF shipments in March, which more than offset the effects of weaker demand in several markets and severe winter weather in Western Canada impacting transportation networks.

Total lumber production, at 1.25 billion board feet, was 11% above the prior quarter, primarily reflecting improved productivity and increased operating hours in the US South, following completion of the major upgrade of the Company's Moultrie, Georgia sawmill at the end of 2018, combined with fewer statutory holidays in the current quarter, and the addition of European SPF lumber production in March. Lumber unit manufacturing and product costs were largely unchanged quarter-over-quarter as lower market-based stumpage offset the effects of cold weather in Western Canada early in the first quarter of 2019, which resulted in lower log recoveries and reduced sawmill productivity, while in the US South, log costs saw a modest increase due to the prolonged wet weather conditions, which resulted in increased competition for available purchased wood.

The weaker pulp market conditions experienced towards the end of 2018 extended into early 2019, and as a result global softwood pulp producer inventory levels remained well above the balanced range through the first quarter. After declining in January, NBSK pulp prices to China, the world's largest pulp consumer, showed a modest recovery to end the quarter at US$730 per tonne. The average US-dollar NBSK pulp list price to China for the first quarter of 2019 was US$710 per tonne, down US$95, or 12%, from the fourth quarter of 2018, and down US$200 per tonne compared to the first quarter of 2018. Prices to other global regions, including North America and Europe, experienced more modest declines when compared to the same comparative periods.

Despite the significantly lower US-dollar pricing to China, CPPI's geographic sales mix, combined with a 1 cent, or 1%, weaker Canadian dollar, resulted in average NBSK pulp unit sales realizations moderately declining quarter-over-quarter. Average Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") sales unit realizations were well down over the same period reflecting an 11% decline in average US-dollar prices. Higher energy revenues in the current quarter reflected increased energy production, seasonally higher power prices, as well as the successful commercialization ramp-up in March of the previously announced Turbo Generator Condensing turbine at the Northwood pulp mill.

Pulp production was 274,000 tonnes for the first quarter of 2019, up 50,000 tonnes, or 22%, from the previous quarter, with improved productivity and increased operating days in the current quarter more than offsetting the aforementioned kiln-related operational disruptions at CPPI's Northwood and Intercontinental pulp mills in January, and, to a lesser extent, cold weather-related production challenges at all mills in February and early March. Pulp shipments were up 28,000 tonnes, or 12%, from the previous quarter mostly reflecting the higher production offset in part by the replenishment of inventory levels significantly drawn down during the fourth quarter of 2018 due the Northwood outage.

Pulp unit manufacturing costs were moderately lower in the current quarter compared to the fourth quarter of 2018, as the benefit of increased production volumes, lower maintenance spend and reduced chemical costs in the current quarter, more than offset higher energy costs related to the aforementioned winter weather conditions, and the continued disruptive impact on natural gas supply and pricing resulting from a third-party natural gas pipeline explosion near Prince George in the fourth quarter. Fibre costs were slightly lower than the previous quarter, as seasonal pricing adjustments combined with lower market-based prices for sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) offset an increased proportion of higher-cost whole log chips.

Lumber prices are anticipated to show a modest increase over the next several months in response to improving demand in the US housing sector, continued strength in the repair and remodeling sector and inventory balances in the supply chain returning to more normalized levels. In addition, recently announced curtailments will help balance supply with demand, and support improved prices. Looking ahead to the second half of 2019, a projected material increase in BC market-based stumpage rates set for July 1, 2019 will place even more pressure on that region's operating rates absent a commensurate increase in Western SPF lumber prices. Lumber prices in Asia are projected to show more moderate declines until inventory levels stabilize. The Company's European SPF business is projected to deliver solid financial results through the balance of 2019. Canfor will continue to closely monitor the market conditions through the second quarter and take appropriate steps should market conditions not improve as anticipated.

In the pulp and paper segment, global softwood pulp markets are projected to remain steady through the second quarter, with inventory levels forecast to move towards a more balanced range in the latter half of 2019 reflecting a gradual drawdown of inventory following the traditional spring maintenance period, as well as the anticipated benefit of the conversion of two large NBSK pulp mills outside of North America to dissolving pulp towards the end of 2019. Fibre costs are anticipated to remain relatively stable in the second quarter; however, the current weakness in lumber markets may result in further temporary or permanent sawmill curtailments which could result in reduced availability of residual chips and an increased proportion of whole log chips. Bleached kraft paper demand is anticipated to hold relatively stable through the second quarter.

Conrad A. Pinette **Chairman**	**Don B. Kayne** **President and Chief Executive Officer**

Canfor Corporation
First Quarter 2019
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the quarter ended March 31, 2019 relative to the quarters ended December 31, 2018 and March 31, 2018, and the financial position of the Company at March 31, 2019. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended March 31, 2019 and 2018, as well as the 2018 annual MD&A and the 2018 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2018 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income (Loss) before Amortization and Adjusted Operating Income (Loss) which Canfor considers to be a relevant indicator for measuring trends in the performance of each of its operating segments and the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. Reference is also made to Adjusted Shareholder Net Income (Loss) (calculated as Shareholder Net Income (Loss) less specific items affecting comparability with prior periods – for the full calculation, see the reconciliation included in the section "Analysis of Specific Material Items Affecting Comparability of Net Income") and Adjusted Shareholder Net Income (Loss) per Share (calculated as Adjusted Shareholder Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization and Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, Canfor's Operating Income (Loss) before Amortization, Adjusted Operating Income (Loss), Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income (Loss) before Amortization to Operating Income (Loss) and Adjusted Shareholder Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in this MD&A. Throughout this discussion, reference is made to the current quarter, which refers to the results for the first quarter of 2019.

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at May 1, 2019.

Forward Looking Statements

Certain statements in this MD&A constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

FIRST QUARTER 2019 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q1 2019	Q4 2018	Q1 2018
Operating income (loss) by segment:			
Lumber[1]	**$ (78.0)**	$ (87.7)	$ 125.9
Pulp and Paper	**$ 18.1**	$ 15.6	$ 85.1
Unallocated and Other	**$ (10.0)**	$ (7.0)	$ (7.2)
Total operating income (loss)	**$ (69.9)**	$ (79.1)	$ 203.8
Add: Amortization[2]	**$ 86.5**	$ 70.0	$ 64.8
Total operating income (loss) before amortization	**$ 16.6**	$ (9.1)	$ 268.6
Add (deduct):			
Working capital movements	**$ (163.0)**	$ (53.7)	$ (152.1)
Defined benefit plan contributions, net	**$ (4.7)**	$ (7.0)	$ (7.3)
Income taxes paid, net	**$ (9.6)**	$ (68.4)	$ (46.8)
Adjustment to accrued duties[3]	**$ 3.1**	$ 10.1	$ (12.9)
Other operating cash flows, net[4]	**$ 8.7**	$ 21.0	$ 22.7
Cash from operating activities	**$ (148.9)**	$ (107.1)	$ 72.2
Add (deduct):			
Capital additions	**$ (74.7)**	$ (140.2)	$ (56.4)
Finance expenses paid	**$ (7.2)**	$ (8.2)	$ (3.7)
Distributions paid to non-controlling interests	**$ (5.0)**	$ (68.6)	$ (1.8)
Repayment of long-term debt	**$ (0.2)**	$ (0.1)	$ (0.1)
Payment of lease obligations[5]	**$ (3.3)**	$ -	$ -
Preliminary consideration paid for acquisition of Vida, net of cash acquired	**$ (562.6)**	$ -	$ -
Proceeds from long-term debt, net	**$ 231.7**	$ -	$ -
Share purchases	**$ -**	$ (24.3)	$ (4.2)
Foreign exchange gain on cash and cash equivalents	**$ 1.8**	$ 7.1	$ 1.4
Other, net[4]	**$ (0.1)**	$ 2.8	$ 0.5
Change in cash / operating loans	**$ (568.5)**	$ (338.6)	$ 7.9
ROIC – Consolidated period-to-date[6]	**(2.8)%**	(3.4)%	6.6%
Average exchange rate (US$ per C$1.00)[7]	**$ 0.752**	$ 0.758	$ 0.791
Average exchange rate (SEK per C$1.00)[7]	**6.905**	6.842	6.413

Q1 2019 results include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.

[1] Q1 2019 includes one month of our European SPF lumber operations results following the February 28, 2019 acquisition of Vida.

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

[3] Adjusted to true-up anti-dumping duties expensed for accounting purposes to current accrual rates.

[4] Further information on cash flows may be found in the Company's unaudited interim consolidated financial statements.

[5] On adoption of IFRS 16 *Leases*, payment of lease obligations represents cash payments towards reduction of outstanding lease obligations and related interest, which were previously included with cash from operating activities.

[6] Consolidated Return on Invested Capital ("ROIC") is equal to operating income (loss) plus realized gains (losses) on derivative financial instruments (i.e. excluding mark-to-market adjustments), plus other income (expense) and excluding non-controlling interest, divided by the average invested capital during the period. Invested capital represents total assets excluding cash and total liabilities excluding long-term debt, retirement benefit obligations, long-term deferred reforestation obligations, and deferred taxes.

[7] Source – Bank of Canada (monthly average rate for the period).

Analysis of Specific Material Items Affecting Comparability of Shareholder Net Income (Loss)

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	Q1 2019	Q4 2018	Q1 2018
Shareholder net income (loss), as reported	**$ (89.5)**	$ (52.4)	$ 112.2
Foreign exchange loss on long-term debt and duty deposits recoverable	**$ 0.8**	$ 2.1	$ 1.9
Countervailing and anti-dumping duties expense, net	**$ 26.5**	$ 28.8	$ 25.5
(Gain) loss on derivative financial instruments	**$ 25.4**	$ (6.5)	$ 5.8
Net impact of above items	**$ 52.7**	$ 24.4	$ 33.2
Adjusted shareholder net income (loss)	**$ (36.8)**	$ (28.0)	$ 145.4
Shareholder net income (loss) per share (EPS), as reported	**$ (0.71)**	$ (0.42)	$ 0.87
Net impact of above items per share	**$ 0.42**	$ 0.19	$ 0.26
Adjusted shareholder net income (loss) per share	**$ (0.29)**	$ (0.23)	$ 1.13

For the first quarter of 2019, the Company reported an operating loss of $69.9 million, an improvement of $9.2 million from the operating loss of $79.1 million reported for the fourth quarter of 2018. The modest increase in financial performance reflected improved operating earnings for the pulp and paper segment and one month of Vida Group of Sweden ("Vida") earnings following the closing of this acquisition on February 28.

Reported results for the first quarter of 2019 included a net duty expense of $36.3 million, at a combined countervailing duty ("CVD") and anti-dumping duty ("ADD") rate of 26.24%, compared to $39.9 million reported in the fourth quarter of 2018 at a cumulative combined duty deposit rate of 16.14% (for the 18-month administrative review period ended December 31, 2018). Reported results in the first quarter of 2019 also included a $38.6 million lumber and log inventory write-down, in addition to the $36.7 million write-down reported in the fourth quarter of 2018. After adjusting for the aforementioned items, the Company's operating income was $5.0 million for the first quarter of 2019, up $7.5 million from similarly adjusted operating income in the fourth quarter of 2018.

Adjusted lumber segment operating income included the Company's new European SPF operations results, which combined with a modest increase in average Western Spruce/Pine/Fir ("Western SPF") benchmark lumber prices and increased production in the US South, offset various weather, operational and market-related challenges in Western Canada. In response to the continued weak market conditions, log supply constraints and cost pressures in British Columbia ("BC"), the Company took production curtailments of 95 million board feet in the current quarter, in addition to 100 million board feet of curtailment taken late in the fourth quarter of 2018.

Results in the pulp and paper segment reflected improved production and shipments, which more than offset the impact of lower US-dollar pulp prices to China. Notwithstanding previously announced kiln-related operational disruptions at two of Canfor Pulp Product Inc.'s ("CPPI") Northern Bleach Softwood Kraft ("NBSK") pulp mills in January and challenges associated with severe winter weather, pulp production was up 22% from the previous quarter, largely as a result of significant downtime taken at CPPI's Northwood pulp mill in the comparative period to perform repairs to one of its two recovery boilers.

The current quarter's reported operating loss was down $273.7 million from operating income of $203.8 million reported for the first quarter of 2018, reflecting a $203.9 million decrease in lumber segment earnings and a $67.0 million decrease in earnings for the pulp and paper segment. Lower lumber segment earnings primarily reflected substantial decreases in Western SPF and SYP benchmark lumber prices, increased log costs in BC, lower shipment and production volumes, largely due to market-driven curtailments in Canfor's BC operations, and the aforementioned inventory write-downs, all of which more than offset the benefit of a 4 cent, or 5%, weaker Canadian dollar in the current quarter. Pulp and paper segment results reflected significantly lower average NBSK pulp and Bleached Chemi Thermo Mechanical Pulp ("BCTMP") US-dollar pricing to China, combined with higher fibre costs (in part relating to whole log chips) and to a lesser extent the aforementioned operational challenges in the first quarter of 2019, partially offset by the weaker Canadian Dollar.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q1 2019	Q4 2018	Q1 2018
Sales	**$ 844.7**	$ 738.4	$ 873.9
Operating income (loss) before amortization	**$ (14.0)**	$ (38.2)	$ 171.5
Operating income (loss)	**$ (78.0)**	$ (87.7)	$ 125.9
Countervailing and anti-dumping duties, net[8]	**$ 36.3**	$ 39.9	$ 34.9
Inventory write-downs	**$ 38.6**	$ 36.7	$ -
Adjusted operating income (loss)	**$ (3.1)**	$ (11.1)	$ 160.8
Average WSPF 2x4 #2&Btr lumber price in US$[9]	**$ 372**	$ 327	$ 513
Average WSPF 2x4 #2&Btr lumber price in Cdn$	**$ 495**	$ 432	$ 649
Average SYP 2x4 #2 lumber price in US$[10]	**$ 416**	$ 457	$ 566
Average European indicative SPF lumber price in SEK[11]	**4,111**	4,235	3,815
Average European indicative SPF lumber price in Cdn$	**$ 595**	$ 619	$ 595
US housing starts (thousand units SAAR)[12]	**1,193**	1,185	1,317
Production – WSPF lumber (MMfbm)[13]	**796.4**	793.0	888.7
Production – SYP lumber (MMfbm)[13]	**364.5**	334.4	351.4
Production – European SPF lumber (MMfbm)[13,15]	**91.3**	-	-
Shipments – WSPF lumber (MMfbm)[14]	**743.1**	782.8	851.2
Shipments – SYP lumber (MMfbm)[14]	**352.0**	330.9	344.6
Shipments – European SPF lumber (MMfbm)[14,15]	**95.1**	-	-

Q1 2019 results include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.
[8] Adjusted for countervailing and anti-dumping duties expensed for accounting purposes.
[9] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[10] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[11] Preliminary quarterly European indicative lumber price is an internally generated benchmark based on delivered price to the largest continental market.
[12] Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").
[13] Excluding production of trim blocks.
[14] Canfor-produced lumber, including lumber purchased for remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.
[15] Q1 2019 includes one month of European SPF lumber shipments and production following the February 28, 2019 acquisition date of Vida.

Markets

North American home construction activity was subdued in the first quarter of 2019, in contrast to the repair and remodeling sector which saw strong demand through the period. US housing starts, on a seasonally adjusted basis, averaged 1,193,000 units, broadly in line with the previous quarter but down 9% from the first quarter of 2018; single-family starts, which consume a higher proportion of lumber, were up 2% from the previous quarter, while multi-family starts dropped 2% compared to the same period. Severe winter weather across much of North America disrupted transportation networks and delayed the start of the spring construction season in many regions. In Canada, housing starts averaged 187,000 units on a seasonally adjusted basis, down 14% from the previous quarter, largely reflecting slowing activity in several major cities. Offshore lumber demand was down, particularly in China, as a result of higher inventory levels in the supply chain.

Sales

Sales revenues for the lumber segment for the first quarter of 2019 were $844.7 million, compared to $738.4 million in the previous quarter and $873.9 million for the first quarter of 2018. The 14% increase in sales revenue compared to the prior quarter was primarily a result of slightly higher Western SPF lumber unit sales realizations and the inclusion of one month of European SPF lumber sales, as well as seasonally higher log sales volumes, principally pulp logs. Sales revenues decreased by 3% compared to the first quarter of 2018 as significantly lower Western SPF and SYP benchmark lumber prices and, to a lesser extent, lower shipments, offset the benefit of a weaker Canadian dollar and the incremental benefit of European SPF lumber sales in the current quarter.

Total lumber shipments, at 1.19 billion board feet, were 7% higher than the previous quarter, mostly as a result of moderately higher SYP shipments combined with the addition of European SPF shipments in March, which more than offset the effects of weaker demand in several markets and severe winter weather in Western Canada impacting transportation networks. Total lumber shipments were broadly in line with the first quarter of 2018, as the additional European SPF lumber shipment volume largely offset the impact of the temporary curtailment of BC sawmill operations during the current quarter, resulting in lower volumes available for sale.

Average Western SPF lumber prices edged upwards in the current quarter, in part in response to industry-wide sawmill production curtailments taken in late 2018 and during the first quarter of 2019. The delay in the usual pick-up of demand from the spring building season contributed to a decline in Western SPF benchmark lumber prices towards the end of the quarter, with prices ending March at US$350 per Mfbm, and slipping further in April. The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US$45 per Mfbm, or 14%, from the previous quarter, at US$372 per Mfbm, with similar increases also seen across most Western SPF wider-width dimensions. The uplift in Western SPF lumber pricing was offset by lower offshore unit sales realizations, increased CVD and ADD expenses in the current quarter, and, to a lesser extent, the slow-down in market demand, all of which resulted in a small increase in Western SPF lumber unit sales realizations quarter-over-quarter.

Southern Yellow Pine (“SYP”) lumber unit sales realizations were in line with the prior quarter as price increases for most wider-width SYP dimensions more than offset a 10% decrease in the SYP East 2x4 #2 price. The average European indicative SPF lumber benchmark price (an internally generated benchmark based on delivered price to the largest continental market), at SEK 4,111 per Mfbm, was down SEK 124 per Mfbm, or 3%, from the previous quarter, but remained at near historical high levels. The Company’s European SPF lumber unit sales realizations for March 2019 were slightly ahead of this benchmark.

Compared to the first quarter of 2018, lumber unit sales realizations were down significantly as considerably lower US-dollar Western SPF and SYP benchmark prices, increased CVD and ADD duty expense, and lower offshore unit sales realizations in the current quarter more than offset the benefit of the weaker Canadian dollar. The average North American Random Lengths Western SPF 2x4 #2&Btr price was down US$141 per Mfbm, or 27%, the SYP East 2x4 #2 price was down US$150 per Mfbm, or 27%, while the European indicative SPF lumber benchmark was up 296 SEK per Mfbm, or 8% over the same period.

Total residual fibre revenue in the current quarter was broadly in line with the prior quarter and slightly higher than the first quarter of 2018, in part reflecting improved chip quality. Current quarter results also reflected higher log sales revenue, primarily related to pulp logs, compared to the previous quarter and the first quarter of 2018 reflecting increased log sales volume. Pellet sales revenues in the first quarter of 2019 were also higher than the previous quarter reflecting the timing of shipments, and were in line with sales in the first quarter of 2018.

<u>Operations</u>

Total lumber production, at 1.25 billion board feet, was 11% above the prior quarter, primarily reflecting improved productivity and increased operating hours in the US South, following completion of the major upgrade of the Company’s Moultrie, Georgia sawmill at the end of 2018, combined with fewer statutory holidays in the current quarter, and the addition of European SPF lumber production in March. Western SPF lumber production was broadly in line with the prior quarter, as temporary production curtailments across BC in January combined with a six-week curtailment at the Company’s Vavenby sawmill and one week curtailments at the Company’s sawmills in Houston and Mackenzie reduced production by approximately 95 million board feet. Western SPF lumber production was reduced by approximately 100 million board feet in the fourth quarter of 2018, reflecting extended curtailments of BC sawmill operations in December. Total lumber production was largely consistent with the first quarter of 2018, primarily reflecting the additional European SPF lumber production in March 2019 offsetting the impacts of the aforementioned production curtailments in Western Canada.

Lumber unit manufacturing and product costs were largely unchanged quarter-over-quarter as lower market-based stumpage offset the effects of cold weather in Western Canada early in the first quarter of 2019, which resulted in lower log recoveries and reduced sawmill productivity, while in the US South, log costs saw a modest increase due to the prolonged wet weather conditions, which resulted in increased competition for available purchased wood. Compared to the first quarter of 2018, unit manufacturing and product costs were up significantly, largely reflecting higher purchased wood costs and market-based stumpage, as well as reduced sawmill productivity, principally due to curtailments, and, to a lesser extent, increased logging and hauling costs in Western Canada.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[16]

(millions of Canadian dollars, unless otherwise noted)	**Q1 2019**	Q4 2018	Q1 2018
Sales	**$ 304.0**	$ 289.7	$ 359.6
Operating income before amortization[17]	**$ 40.4**	$ 36.1	$ 104.3
Operating income	**$ 18.1**	$ 15.6	$ 85.1
Average NBSK pulp price delivered to China – US$[18]	**$ 710**	$ 805	$ 910
Average NBSK pulp price delivered to China – Cdn$	**$ 944**	$ 1,062	$ 1,150
Production – pulp (000 mt)	**274.2**	223.9	311.7
Production – paper (000 mt)	**35.0**	35.6	34.3
Shipments – pulp (000 mt)	**258.8**	230.7	310.0
Shipments – paper (000 mt)	**32.7**	32.0	32.0

Q1 2019 results include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.
[16] Includes 100% of Canfor Pulp Products Inc., which is consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both NBSK pulp and BCTMP.
[17] Amortization includes amortization of certain capitalized major maintenance costs.
[18] Per tonne, NBSK pulp list price delivered to China (Resource Information Systems, Inc.).

Markets

The weaker pulp market conditions experienced towards the end of 2018 extended into early 2019 and as a result global softwood pulp producer inventory levels remained well above the balanced range through the first quarter. After declining in January, NBSK pulp prices to China, the world's largest pulp consumer, showed a modest recovery to end the quarter at US$730 per tonne. The average US-dollar NBSK pulp list price to China for the first quarter of 2019 was US$710 per tonne, down US$95, or 12%, from the fourth quarter of 2018, and down US$200 per tonne compared to the first quarter of 2018. Prices to other global regions, including North America and Europe, experienced more modest declines when compared to the same comparative periods.

Softwood pulp producer inventories at the end of March 2019 were well above the balanced range at 37 days of supply but were down slightly from December 2018[19] (Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range). Global shipments of bleached softwood pulp increased 3.5%[20], for the first three months of 2019 compared to the first three months of 2018, driven primarily by an 8.5% increase in shipments to China. This represents the first increase since May 2018 and was in contrast to global shipments of bleached hardwood pulp, which modestly declined through the quarter and had 59 days of supply in inventories at the end of March 2019.

Global kraft paper markets were solid for most of the current quarter, before extended wet winter weather conditions resulted in a temporary slowing of demand in North America during March.

Sales

Pulp shipments for the first quarter of 2019 were 259,000 tonnes, up 28,000 tonnes, or 12%, from the previous quarter and down 51,000 tonnes, or 17%, from the first quarter of 2018. Increased shipments in the current quarter reflect improved pulp production, offset in part by the replenishment of inventory levels significantly drawn down during the fourth quarter of 2018 due to the Northwood outage and, to a lesser extent, weather-related transportation constraints and slower demand from North American and European markets towards the end of the current quarter. Compared to the first quarter of 2018, the decrease in pulp shipments reflected lower production levels, which included the temporary production curtailment at the Taylor BCTMP mill, in the current quarter, combined with weaker demand early in 2019, particularly from China.

Despite the significantly lower US-dollar pricing to China, CPPI's geographic sales mix, combined with a 1 cent, or 1%, weaker Canadian dollar, resulted in average NBSK pulp unit sales realizations moderately declining quarter-over-quarter. Average BCTMP sales unit realizations were well down over the same period reflecting an 11% decline in average US-dollar prices.

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

Compared to the first quarter of 2018, the average US-dollar NBSK pulp price to China was down US$200 per tonne, or 22%. Notwithstanding a significant decline in China pricing, CPPI's average NBSK unit sales realizations saw a slight decrease reflecting the benefit of improved US-dollar prices to North America and Europe, combined with the weaker Canadian dollar in the current quarter. Average BCTMP unit sales realizations showed a sharp decline compared to the first quarter of 2018 reflecting lower BCTMP pricing in the current quarter, partially offset by the weaker Canadian dollar.

Higher energy revenues in the current quarter reflected increased energy production, seasonally higher power prices, as well as the successful commercialization ramp-up in March of the previously announced Turbo Generator Condensing turbine at the Northwood pulp mill. Energy revenues were down quarter-over-quarter reflecting reduced power generation largely correlated with the lower pulp production when compared to the first quarter of 2018.

Paper shipments in the first quarter of 2019 were 33,000 tonnes, broadly in line with both the previous quarter and first quarter of 2018.

Paper unit sales realizations in the first quarter of 2019 saw a moderate increase compared to the previous quarter, largely due to favourable market-driven US-dollar pricing throughout most of the quarter combined with a higher value regional mix. Compared to the first quarter of 2018, paper unit sales realizations were substantially higher reflecting higher US-dollar prices, a favourable sales mix and the weaker Canadian dollar in the current quarter.

Operations

Pulp production was 274,000 tonnes for the first quarter of 2019, up 50,000 tonnes, or 22%, from the previous quarter, with improved productivity and increased operating days in the current quarter more than offsetting the aforementioned kiln-related operational disruptions at CPPI's Northwood and Intercontinental pulp mills in January, and, to a lesser extent, cold weather-related production challenges at all mills in February and early March. BCTMP production was in line with the prior quarter as a production curtailment at CPPI's Taylor mill at the end of 2018 extended into early January; this curtailment was taken in response to reduced residual fibre availability following various sawmill curtailments in the region. Compared to the first quarter of 2018, pulp production was down 38,000 tonnes, or 12%, reflecting the previously noted operational challenges in the first two months of the current quarter and increased productivity in the first quarter of 2018.

Pulp unit manufacturing costs were moderately lower in the current quarter compared to the fourth quarter of 2018, as the benefit of increased production volumes, lower maintenance spend and reduced chemical costs in the current quarter, more than offset higher energy costs related to the aforementioned winter weather conditions, and the continued disruptive impact on natural gas supply and pricing resulting from a third-party natural gas pipeline explosion near Prince George in the fourth quarter. Fibre costs were slightly lower than the previous quarter, as seasonal pricing adjustments combined with lower market-based prices for sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) offset an increased proportion of higher-cost whole log chips. Compared to the first quarter of 2018, pulp unit manufacturing costs were materially higher, reflecting lower production and higher energy costs in the current quarter, as well as higher fibre costs quarter-over-quarter, related to an increased proportion of higher-cost whole log chips and higher delivered sawmill residual chip costs reflecting reduced fibre availability due to recent sawmill curtailments.

Paper production for the first quarter of 2019 was 35,000 tonnes, broadly in line with the previous quarter and first quarter of 2018. Paper unit manufacturing costs were moderately lower than both comparative quarters primarily reflecting reduced slush pulp costs associated with decreased Canadian dollar NBSK pulp unit sales realizations in the current quarter.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)	Q1 2019	Q4 2018	Q1 2018
Operating loss of Panels operations[21]	**$ (0.5)**	$ (0.5)	$ (0.6)
Corporate costs	**$ (9.5)**	$ (6.5)	$ (6.6)
Finance expense, net	**$ (10.5)**	$ (7.6)	$ (6.7)
Foreign exchange loss on long-term debt and duty deposits recoverable	**$ (1.2)**	$ (2.3)	$ (2.2)
Gain (loss) on derivative financial instruments	**$ (28.4)**	$ 18.3	$ (8.0)
Other income, net	**$ 1.8**	$ 5.4	$ 5.3

Q1 2019 results include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.

[21] The Panels operations include the Company's PolarBoard oriented strand board ("OSB") plant, which is currently indefinitely idled and its Tackama plywood plant, which has been permanently closed.

Corporate costs were $9.5 million for the first quarter of 2019, up $3.0 million from the previous quarter and up $2.9 million from the first quarter of 2018 largely reflecting higher costs associated with the closing of the Vida acquisition.

Net finance expense of $10.5 million for the first quarter of 2019 was up $2.9 million from the previous quarter and up $3.8 million from the first quarter of 2018. The increase compared to both comparative periods largely reflected interest expense associated with the Company's higher debt levels resulting from the Vida acquisition, and, to a lesser extent, interest expense on leases related to the prospective adoption of IFRS 16 on January 1, 2019.

In the first quarter of 2019, the Company recognized a foreign exchange gain on its US-dollar term debt held by Canadian entities, which was more than offset by a loss on US-denominated net duty deposits recoverable due to the strengthening of the Canadian dollar at the end of the quarter (see further discussion on the term debt financing in the "Liquidity and Financial Requirements" section).

At times, the Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in lumber prices, energy costs, interest and foreign exchange rates. In the first quarter of 2019, the Company recorded a net loss of $28.4 million related to its derivatives instruments, primarily reflecting mark-to-market losses recognized upon settlement of Swedish Krona forward foreign exchange contracts during the quarter (gain of $18.8 million in the fourth quarter of 2018), offset in part by mark-to-market gains on lumber futures contracts. The aforementioned Swedish Krona forward foreign exchange contracts were one-time contracts entered into by the Company for the purpose of reducing the Company's risk against fluctuations in the Swedish Krona associated with the acquisition of Vida.

Other income, net, of $1.8 million in the first quarter of 2019 largely related to unfavourable foreign exchange movements on US-dollar denominated working capital balances, partially offset by the receipt of insurance proceeds during the quarter.

Other Comprehensive Income (Loss)

The following table summarizes Canfor's Other Comprehensive Income (Loss) for the comparable periods:

(millions of Canadian dollars)	Q1 2019	Q4 2018	Q1 2018
Defined benefit actuarial gains (losses), net of tax	**$ (5.3)**	$ (9.1)	$ 9.6
Foreign exchange translation differences for foreign operations, net of tax	**$ (3.6)**	$ 33.6	$ 15.1
Other comprehensive income (loss), net of tax	**$ (8.9)**	$ 24.5	$ 24.7

In the first quarter of 2019, the Company recorded an after-tax loss of $5.3 million in relation to changes in the valuation of the Company's employee future benefit plans. The loss in the current quarter principally reflected a 0.3% reduction in the discount rate used to value the employee future benefit plans, partially offset by a return on plan assets greater than the discount rate. This compared to an after-tax loss of $9.1 million recorded in the fourth quarter of 2018, largely reflecting a lower than anticipated return on plan assets, and compared to an after-tax gain of $9.6 million in the first quarter of 2018 reflecting a 0.2% increase in the discount rate used to value the employee future benefit plans, partially offset by a lower than anticipated return on plan assets.

During the fourth quarter of 2018, the Company purchased $58.9 million of annuities through its defined benefit plans in order to mitigate its exposure to the future volatility in the related pension obligations. At purchase of these annuities, transaction costs of $3.6 million were recognized in other comprehensive income principally reflecting the difference in the annuity rate as compared to the discount rate used to value the pension obligations on a going concern basis.

In addition, the Company recorded a loss of $3.6 million in the first quarter of 2019 related to foreign exchange differences for foreign operations, resulting from the strengthening of the Canadian dollar relative to both the US-dollar and the Swedish Krona towards the end of the first quarter. This compared to a gain of $33.6 million in the previous quarter and a gain of $15.1 million in the first quarter of 2018 due to the weakening of the Canadian dollar relative to the US counterpart.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)	**Q1 2019**	Q4 2018	Q1 2018
Cash generated from (used in)			
Operating activities	**$ (148.9)**	$ (107.1)	$ 72.2
Financing activities	**$ 603.4**	$ (101.2)	$ (9.9)
Investing activities	**$ (637.4)**	$ (137.4)	$ (55.8)
Increase (decrease) in cash and cash equivalents[22]	**$ (182.9)**	$ (345.7)	$ 6.5
Ratio of current assets to current liabilities	**1.5 : 1**	2.6 : 1	2.5 : 1
Net debt to capitalization[23]	**30.0%**	6.2%	4.3%

Q1 2019 results include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.
[22] Increase (decrease) in cash and cash equivalents shown before foreign exchange translation on cash and cash equivalents.
[23] Net debt to capitalization is equal to net debt divided by net capitalization. Net debt is equal to interest-bearing debt less cash and cash equivalents on hand. Net capitalization is equal to net debt plus total equity.

The changes in the components of these cash flows are discussed in the following sections:

Operating Activities

Operating activities used $148.9 million of cash in the first quarter of 2019, compared to $107.1 million cash used in the previous quarter and cash generated of $72.2 million in the first quarter of 2018. The decrease in operating cash flows from the previous quarter primarily reflected unfavourable movements in non-cash working capital balances, driven by a seasonal log inventory build and increase in trade accounts receivable, offset in part by lower tax installment payments in the current quarter. Compared to the first quarter of 2018, the decrease in operating cash flows was primarily attributable to lower cash earnings, which more than offset lower income taxes paid in the current quarter.

Financing Activities

Cash generated from financing activities was $603.4 million in the current quarter, compared to cash used of $101.2 million in the previous quarter and cash used of $9.9 million in the first quarter of 2018. Financing activities in the current quarter were principally related to draw-downs on the Company's operating loan and long-term debt facilities to finance the Vida acquisition and to service working capital requirements in the current quarter.

Investing Activities

Cash used for investing activities was $637.4 million for the current quarter, compared to $137.4 million for the previous quarter and $55.8 million for the same quarter of 2018. Compared to both comparative periods, the significant increase is primarily due to the $562.6 million preliminary consideration paid for the acquisition of Vida, (net of cash acquired). Capital additions were $74.7 million, down $65.5 million from the previous quarter and up $18.3 million from the first quarter of 2018. Current quarter lumber segment capital expenditures of $48.3 million reflected additional capital deployed in the US South, as well as smaller, high-returning capital projects aimed at increasing drying capacity and productivity in Western Canada. In the pulp and paper segment, capital expenditures of $25.5 million primarily related to maintenance-of-business capital, combined with capital expenditures associated with the ongoing development of CPPI's new ERP software system and the completion of its previously announced energy project at its Northwood pulp mill which commenced operations in the first quarter of 2019.

Liquidity and Financial Requirements

Operating Loans

At March 31, 2019, the Company, on a consolidated basis, had cash of $71.6 million, $405.2 million drawn on its operating loans, and $75.8 million reserved for several standby letters of credit. At period end, the Company had total available undrawn operating loans of $344.4 million, including undrawn facilities for letters of credit.

On March 5, 2019, Canfor, excluding Vida and CPPI, entered into a committed revolving credit facility of $100.0 million with a maturity date of February 28, 2020.

At March 31, 2019, Canfor, excluding Vida and CPPI, had an undrawn $192.2 million committed operating loan facility, and $62.8 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans. No amounts were drawn on the revolving credit facility as at March 31, 2019.

Interest is payable on Canfor's committed operating loan and revolving credit facility at floating rates based on the lenders' Canadian prime rate, bankers acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio.

On February 28, 2019, as a result of Canfor's acquisition of Vida, operating loan facilities with a total availability of $95.4 million were included in the Company's consolidated balance sheet. Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates, ranging from 1.05% to 4.39%. Vida also has separate overdraft facilities with fixed interest rates ranging from 0.8% to 4.7%. Vida's operating loan facilities have certain financial covenants including minimum equity and interest coverage ratios. As at March 31, 2019, $17.2 million was drawn on Vida's $95.4 million operating loan facilities (including overdraft facilities).

At March 31, 2019, $23.0 million was drawn from CPPI's $110.0 million operating loan facility, with $13.0 million in letters of credit outstanding.

Term Debt

During the first quarter of 2019, $100.0 million was drawn on Canfor's Canadian dollar denominated term debt, increasing the long-term debt balance to $225.0 million at March 31, 2019. Canfor also drew US$100.0 million from its US-dollar denominated floating rate term debt facility, increasing the debt balance to US$200.0 million at March 31, 2019.

On February 28, 2019, long-term debt of $21.6 million was also consolidated into Canfor's balance sheet as part of the acquisition of Vida. Vida's term debt is subject to floating rates of interest and has maturity dates ranging from October 31, 2019 to November 30, 2024.

The Company's consolidated net debt to total capitalization at the end the first quarter of 2019 was 30.0%. For Canfor, excluding CPPI, net debt to capitalization at the end of the first quarter of 2019 was 34.5%.

Debt Covenants

Canfor, Vida and CPPI remained in compliance with all covenants relating to their respective operating loan facilities and long-term debt during the quarter and expect to remain so for the foreseeable future. Substantially all borrowings of Vida and CPPI are non-recourse to other entities within the Company.

Normal Course Issuer Bid

On March 4, 2019, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,260,970 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2019. The renewed normal course issuer bid is set to expire on March 6, 2020. In December 2018, the Company decreased its share purchase activity under its normal course issuer bid following the announcement of the acquisitions of Vida and Elliott Sawmilling Co. Inc. ("Elliott").

As a result of the reduced share purchase activity, no shares were purchased under Canfor's normal course issuer bid, or under CPPI's separate normal course issuer bid during the first quarter of 2019. Canfor and CPPI may purchase shares through the balance of 2019, however, subject to the terms of their normal course issuer bids.

As at March 31, 2019 and May 1, 2019, there were 125,219,400 common shares of the Company outstanding and Canfor's ownership interest in CPPI was at 54.8%.

Commitments and Subsequent Events

On November 9, 2018, the Company announced that it had entered into an agreement to purchase Elliott for a purchase price of US$110 million, including working capital. Elliott's access to high-quality fibre and focus on high-value products provides a strong cultural and strategic alignment with Canfor's existing operations in the US South, with an annual production capacity in excess of 210 million board feet. While the purchase price of Elliott will be paid in three equal instalments, ownership will be transferred to Canfor over a period of two years, with 49% acquired at closing (anticipated in the second quarter of 2019) and the remaining 51% acquired one year later.

Subsequent to quarter end, on April 4, 2019, Canfor entered into an agreement with a third party that will provide Canfor with an annual fibre supply of approximately 125,000m^3 over a period of twenty five years, for $19.5 million. Canfor advanced a total of $19.5 million to the counterparty under the terms of the agreement on April 5, 2019.

OUTLOOK

Lumber

Lumber prices are anticipated to show a modest increase over the next several months in response to improving demand in the US housing sector, continued strength in the repair and remodeling sector and inventory balances in the supply chain returning to more normalized levels. In addition, recently announced curtailments will help balance supply with demand, and support improved prices. Looking ahead to the second half of 2019, a projected material increase in BC market-based stumpage rates set for July 1, 2019 will place even more pressure on that region's operating rates absent a commensurate increase in Western SPF lumber prices. Lumber prices in Asia are projected to show more moderate declines until inventory levels stabilize. The Company's European SPF business is projected to deliver solid financial results through the balance of 2019. Canfor will continue to closely monitor the market conditions through the second quarter and take appropriate steps should market conditions not improve as anticipated.

Pulp and Paper

Global softwood pulp markets are projected to remain steady through the second quarter, with inventory levels forecast to move towards a more balanced range in the latter half of 2019 reflecting a gradual drawdown of inventory following the traditional spring maintenance period, as well as the anticipated benefit of the conversion of two large NBSK pulp mills outside of North America to dissolving pulp towards the end of 2019. Fibre costs are anticipated to remain relatively stable in the second quarter; however, the current weakness in lumber markets may result in further temporary or permanent sawmill curtailments which could result in reduced availability of residual chips and an increased proportion of whole log chips. Bleached kraft paper demand is anticipated to hold relatively stable through the second quarter.

Results in the second quarter of 2019 will include a recently completed scheduled maintenance outage at the Intercontinental NBSK pulp mill in April, which reduced NBSK pulp production by approximately 11,000 tonnes, as well as higher associated maintenance costs. Additional maintenance outages are scheduled at the Taylor BCTMP mill and the Prince George NBSK pulp mill in the second and third quarters of 2019 with a projected 5,000 tonnes of reduced BCTMP production and 6,000 tonnes of reduced NBSK pulp production, respectively. A maintenance outage is currently planned at CPPI's paper machine during the third quarter of 2019 with a projected 4,000 tonnes of reduced paper production.

LABOUR AGREEMENTS

Canfor's collective agreement with the United Steelworkers ("USW") expired on June 30, 2018. The Company is encouraged that a Memorandum of Agreement ("MOA") for a new five-year term has been reached with the USW. The MOA includes seven of Canfor's certified mills in BC. The ratification process is ongoing. Canfor remains optimistic that a negotiated settlement can be reached.

In addition, Canfor has three mills represented in the negotiation process being led by the Interior Forest Labour Relations Association ("IFLRA"). Canfor remains optimistic that a settlement will be reached between the IFLRA and the USW.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, certain accounts receivable, pension and other employee future benefit plans, asset retirement and deferred reforestation obligations, and the determination of ADD expensed and recorded as recoverable based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Company's financial condition, other than the possibility of material effects to the income statement from the Company's estimated ADD net duty recoverable as discussed in Note 5 of the consolidated interim financial statements.

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2019, the Company has adopted IFRS 16 *Leases*, which supersedes IAS 17 *Leases* and related interpretations. Under IAS 17, leases were previously classified as either operating or financing for lessees based on an assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. As the Company's leases were previously classified as operating, straight-line operating lease expense was recognized over the lease term in the comparative period.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees, with a right-of-use asset ("ROU asset") representing the Company's right to use the underlying asset, and a lease obligation representing its obligation to make lease payments. Amortization expense for ROU assets and interest expense for lease obligations replaces the straight-line operating lease expense recognized under IAS 17.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Short-term and low-value recognition exemptions were applied, as well as certain practical expedients allowing for the use of hindsight to assess the lease term for contracts with extension options, the exclusion of initial direct costs from measurement of the ROU asset and the exclusion of leases with a term of less than one year remaining at the transition date.

On adoption of IFRS 16, the Company recognized $46.1 million of ROU assets, $48.3 million of lease obligations and deferred tax assets of $0.6 million, with the difference of $1.6 million recognized in retained earnings.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

With the recent acquisition of 70% of Vida on February 28, 2019, the scope of the Company's design of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") as at March 31, 2019, has been limited to exclude controls, policies and procedures of Vida. Following the completion of such an evaluation, however, the Company intends to include such controls, policies and procedures within the design of DC&P and ICFR. Additional information about the acquisition is provided under Note 13(b) of Canfor's consolidated interim financial statements.

Other than the aforementioned Vida acquisition, there were no changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2019 that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2018 annual statutory reports which are available on www.canfor.com or www.sedar.com.

In addition to exposure to changes in product prices and foreign exchange, the Company's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions, as well as forest fires, can cause logging curtailments, which can affect the supply of raw materials to sawmills and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for lumber products, is generally stronger in the spring and fall months. Shipment volumes are affected by these factors as well as by global supply and demand conditions. Net income is also impacted by fluctuations in Canadian dollar exchange rates, and the revaluation to the period end rate of US-dollar and SEK denominated working capital balances, US-dollar and SEK denominated debt and revaluation of outstanding derivative financial instruments.

Acquisition of Vida

In addition to the risks and uncertainties outlined above and in the Company's 2018 annual statutory reports, Canfor is subject to risks associated with its European SPF lumber operations, arising from the acquisition of a 70% interest in Vida on February 28, 2019. Vida is subject to laws and regulations of the Swedish Government and more broadly, the European Union, with its forest operations governed by the *Swedish Forestry Act*, *Land Acquisition Act* and the *Swedish Environmental Code.*

As Vida's European SPF lumber operations have an impact on air, water, land and biological processes, Vida has incurred, prior to acquisition, and will continue to incur, capital expenditures and operating costs to comply with environmental laws and regulations. No assurance can be given that changes in these laws and regulations or their application will not have a material adverse effect on the European SPF lumber business, operations, financial condition and operational results. Similarly, no assurance can be given that capital expenditures necessary for future compliance with existing and new environmental laws and regulations could be financed from available cash flow. In addition, the European SPF lumber operations may discover currently unknown environmental issues, contamination, or conditions relating to historical or present operations. This may require site or other remediation costs to maintain compliance or remedy issues or result in governmental or private claims for damage to person, property or the environment, which could have a material adverse effect on the Company's business, operations, financial condition and operational results.

These risks are minimized through Vida's European SPF lumber operations environmental policies and preventative work in the form of environmental management systems, the certification of raw materials through the *Swedish Forest Stewardship Council* ("FSC") and *Program for the Endorsement of Forest Certification* ("PFEC") and remediation projects. In addition, Vida also has governance in place through various committees of the Company's Board of Directors.

As the European SPF lumber operation purchases the majority of its raw materials from privately owned forests in Southern Sweden, it is exposed to pricing fluctuations driven by supply and demand in the region. In addition, the Company's ability to purchase fibre for use in its operations could be adversely impacted by natural events such as forest fires, severe weather conditions or insect infestations. Pricing fluctuations are minimized, however, through strategic purchasing.

Vida's remaining risks and uncertainties are largely consistent with those outlined in the Company's 2018 annual statutory reports.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Sales and income (millions of Canadian dollars)								
Sales	**$ 1,148.7**	$ 1,028.1	$ 1,323.3	$ 1,459.5	$ 1,233.5	$ 1,156.0	$ 1,142.5	$ 1,159.6
Operating income (loss)	**$ (69.9)**	$ (79.1)	$ 201.8	$ 282.1	$ 203.8	$ 214.2	$ 105.4	$ 131.0
Net income (loss)	**$ (83.1)**	$ (46.0)	$ 144.9	$ 198.6	$ 141.5	$ 152.6	$ 72.6	$ 90.9
Shareholder net income (loss)	**$ (89.5)**	$ (52.4)	$ 125.3	$ 169.8	$ 112.2	$ 131.8	$ 66.2	$ 81.3
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ (0.71)**	$ (0.42)	$ 0.98	$ 1.32	$ 0.87	$ 1.02	$ 0.51	$ 0.61
Book value[24]	**$ 14.69**	$ 16.42	$ 16.66	$ 15.95	$ 14.52	$ 13.46	$ 12.32	$ 12.14
Common Share Repurchases								
Share volume repurchased (000 shares)	**-**	1,123	2,283	-	20	633	3,526	-
Shares repurchased (millions of Canadian dollars)	**$ -**	$ 20.6	$ 63.7	$ -	$ 0.5	$ 15.7	$ 75.0	$ -
Statistics								
Lumber shipments (MMfbm) [25]	**1,190**	1,114	1,291	1,351	1,196	1,205	1,334	1,333
Pulp shipments (000 mt)	**259**	231	262	329	310	300	303	276
Average exchange rate – US$/Cdn$	**$ 0.752**	$ 0.758	$ 0.765	$ 0.774	$ 0.791	$ 0.786	$ 0.798	$ 0.744
Average exchange rate – SEK/Cdn$	**6.905**	6.842	6.844	6.720	6.413	6.544	6.493	6.544
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 372**	$ 327	$ 482	$ 598	$ 513	$ 462	$ 406	$ 388
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 416**	$ 457	$ 488	$ 589	$ 566	$ 455	$ 408	$ 476
Average NBSK pulp list price delivered to China (US$)	**$ 710**	$ 805	$ 887	$ 910	$ 910	$ 863	$ 670	$ 670

Q1 2019 results include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.

[24] Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

[25] Canfor-produced lumber, including lumber purchased for remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

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

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except for per share amounts)	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Shareholder net income (loss), as reported	**$ (89.5)**	$ (52.4)	$ 125.3	$ 169.8	$ 112.2	$ 131.8	$ 66.2	$ 81.3
Foreign exchange (gain) loss on long-term debt and duty deposits recoverable	**$ 0.8**	$ 2.1	$ (0.7)	$ 1.0	$ 1.9	$ 0.6	$ (4.4)	$ (2.9)
Countervailing and anti-dumping duties expense (recovery), net[26]	**$ 26.5**	$ 28.8	$ 31.1	$ 37.7	$ 25.5	$ (17.3)	$ 23.8	$ 26.3
(Gain) loss on derivative financial instruments	**$ 25.4**	$ (6.5)	$ 1.2	$ 5.6	$ 5.8	$ 4.8	$ 1.4	$ -
Change in substantively enacted tax rates[27]	**$ -**	$ -	$ -	$ -	$ -	$ (5.1)	$ -	$ -
Mill closure provisions[28]	**$ -**	$ -	$ -	$ -	$ -	$ -	$ (2.4)	$ -
Net impact of above items	**$ 52.7**	$ 24.4	$ 31.6	$ 44.3	$ 33.2	$ (17.0)	$ 18.4	$ 23.4
Adjusted shareholder net income (loss)	**$ (36.8)**	$ (28.0)	$ 156.9	$ 214.1	$ 145.4	$ 114.8	$ 84.6	$ 104.7
Shareholder net income (loss) per share (EPS), as reported	**$ (0.71)**	$ (0.42)	$ 0.98	$ 1.32	$ 0.87	$ 1.02	$ 0.51	$ 0.61
Net impact of above items per share[29]	**$ 0.42**	$ 0.19	$ 0.25	$ 0.34	$ 0.26	$ (0.13)	$ 0.14	$ 0.18
Adjusted net income (loss) per share[29]	**$ (0.29)**	$ (0.23)	$ 1.23	$ 1.60	$ 1.13	$ 0.89	$ 0.65	$ 0.78

[26] Adjusted for countervailing and anti-dumping duties expensed for accounting purposes. Results in the first quarter of 2019 included a $4.3 million true-up related to a reduction of the countervailing and anti-dumping duty rates applicable to the first period of administrative review, from July 2017 to December 2018.

[27] During the fourth quarter of 2017, the Company recorded a $5.1 million decrease, net of minority interest, in deferred tax balances as a result of legislative changes in both Canada and the US.

[28] In the third quarter of 2017, $3.2 million (before-tax) of the closure provision related to Canal Flats was reversed.

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

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		As at March 31, 2019		As at December 31, 2018
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**71.6**	$	252.7
Accounts receivable - Trade		**382.2**		182.1
- Other		**55.7**		52.4
Income taxes receivable		**59.9**		32.5
Inventories (Note 3)		**1,052.1**		762.5
Prepaid expenses and other		**90.2**		67.1
Total current assets		**1,711.7**		1,349.3
Property, plant and equipment		**2,065.2**		1,607.2
Right-of-use assets (Note 4(a))		**56.8**		-
Timber licenses		**500.2**		504.1
Goodwill and other intangible assets (Note 13(b))		**480.2**		268.3
Long-term investments and other, net (Note 5)		**109.1**		110.4
Retirement benefit surplus (Note 7)		**7.0**		4.9
Deferred income taxes, net		**0.9**		0.9
Total assets	**$**	**4,931.1**	$	3,845.1
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**609.6**	$	458.9
Income taxes payable		**19.4**		-
Operating loans (Note 6(a))		**405.2**		-
Current portion of deferred reforestation obligations		**52.9**		52.9
Current portion of long-term debt (Note 6(b))		**14.2**		0.4
Current portion of lease obligations (Note 4(b))		**15.5**		-
Total current liabilities		**1,116.8**		512.2
Long-term debt (Note 6(b))		**643.6**		408.0
Retirement benefit obligations (Note 7)		**264.6**		254.7
Lease obligations (Note 4(b))		**43.9**		-
Deferred reforestation obligations		**80.4**		63.9
Other long-term liabilities		**21.5**		24.6
Put liability (Note 13(b))		**119.6**		-
Deferred income taxes, net		**324.7**		241.8
Total liabilities	**$**	**2,615.1**	$	1,505.2
EQUITY				
Share capital	**$**	**987.9**	$	987.9
Contributed surplus and other equity		**(86.7)**		31.9
Retained earnings		**835.8**		931.1
Accumulated other comprehensive income		**101.9**		105.5
Total equity attributable to equity shareholders of the Company		**1,838.9**		2,056.4
Non-controlling interests		**477.1**		283.5
Total equity	**$**	**2,316.0**	$	2,339.9
Total liabilities and equity	**$**	**4,931.1**	$	3,845.1

Subsequent Event (Note 15)

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, C.A. Pinette

Canfor Corporation
Condensed Consolidated Statements of Income (Loss)

(millions of Canadian dollars, except per share data, unaudited)	3 months ended March 31, **2019**	2018
Sales	**$ 1,148.7**	$ 1,233.5
Costs and expenses		
Manufacturing and product costs	**904.1**	750.5
Freight and other distribution costs	**159.4**	152.4
Countervailing and anti-dumping duty expense, net (Note 14)	**36.3**	34.9
Amortization	**86.5**	64.8
Selling and administration costs	**32.3**	27.1
	1,218.6	1,029.7
Operating income (loss)	**(69.9)**	203.8
Finance expense, net	**(10.5)**	(6.7)
Foreign exchange gain (loss) on long-term debt	**0.5**	(3.5)
Foreign exchange gain (loss) on duty deposits recoverable, net (Note 5)	**(1.7)**	1.3
Loss on derivative financial instruments (Note 8)	**(28.4)**	(8.0)
Other income, net	**1.8**	5.3
Net income (loss) before income taxes	**(108.2)**	192.2
Income tax recovery (expense) (Note 9)	**25.1**	(50.7)
Net income (loss)	**$ (83.1)**	$ 141.5
Net income (loss) attributable to:		
Equity shareholders of the Company	**$ (89.5)**	$ 112.2
Non-controlling interests	**6.4**	29.3
Net income (loss)	**$ (83.1)**	$ 141.5
Net income (loss) per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 10)	**$ (0.71)**	$ 0.87

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

Canfor Corporation
Condensed Consolidated Statements of Other Comprehensive Income (Loss)

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2019**	2018
Net income (loss)	**$ (83.1)**	$ 141.5
Other comprehensive income (loss)		
Items that will not be recycled through net income (loss):		
Defined benefit plan actuarial gains (losses) (Note 7)	**(7.3)**	13.2
Income tax recovery (expense) on defined benefit plan actuarial losses/gains (Note 9)	**2.0**	(3.6)
	(5.3)	9.6
Items that may be recycled through net income (loss):		
Foreign exchange translation of foreign operations, net of tax	**(3.6)**	15.1
Other comprehensive income (loss), net of tax	**(8.9)**	24.7
Total comprehensive income (loss)	**$ (92.0)**	$ 166.2
Total comprehensive income (loss) attributable to:		
Equity shareholders of the Company	**$ (97.3)**	$ 135.8
Non-controlling interests	**5.3**	30.4
Total comprehensive income (loss)	**$ (92.0)**	$ 166.2

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

Canfor Corporation
Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)		3 months ended March 31, 2019		2018
Share capital				
Balance at beginning of period	**$**	**987.9**	$	1,014.9
Share purchases (Note 10)		**-**		(0.2)
Balance at end of period	**$**	**987.9**	$	1,014.7
Contributed surplus and other equity				
Balance at beginning of period	**$**	**31.9**	$	31.9
Put liability related to Vida acquisition (Note 13(b))		**(118.6)**		-
Balance at end of period	**$**	**(86.7)**	$	31.9
Retained earnings				
Balance at beginning of period	**$**	**931.1**	$	629.5
Net income (loss) attributable to equity shareholders of the Company		**(89.5)**		112.2
Defined benefit plan actuarial gains (losses), net of tax		**(4.2)**		8.5
Impact of change in accounting policy (Notes 1 and 4)		**(1.6)**		-
Share purchases (Note 10)		**-**		(0.3)
Non-controlling interests arising from change in partnership interest in pellet plants		**-**		1.3
Balance at end of period	**$**	**835.8**	$	751.2
Accumulated other comprehensive income (loss)				
Balance at beginning of period	**$**	**105.5**	$	55.1
Foreign exchange translation of foreign operations, net of tax		**(3.6)**		15.1
Balance at end of period	**$**	**101.9**	$	70.2
Total equity attributable to equity shareholders of the Company	**$**	**1,838.9**	$	1,868.0
Non-controlling interests				
Balance at beginning of period	**$**	**283.5**	$	269.6
Net income attributable to non-controlling interests		**6.4**		29.3
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of tax		**(1.1)**		1.1
Distributions to non-controlling interests		**(5.0)**		(1.8)
Impact of change in accounting policy (Notes 1 and 4)		**(0.1)**		-
Non-controlling interests arising from acquisition (Note 13(b))		**193.4**		-
Non-controlling interests arising from change in partnership interest in pellet plants		**-**		2.5
Balance at end of period	**$**	**477.1**	$	300.7
Total equity	**$**	**2,316.0**	$	2,168.7

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2019	2018
Cash generated from (used in):		
Operating activities		
Net income (loss)	**$ (83.1)**	$ 141.5
Items not affecting cash:		
Amortization	**86.5**	64.8
Income tax expense (recovery)	**(25.1)**	50.7
Long-term portion of deferred reforestation obligations	**16.2**	16.9
Foreign exchange (gain) loss on long-term debt	**(0.5)**	3.5
Foreign exchange (gain) loss on duty deposits recoverable, net (Note 5)	**1.7**	(1.3)
Adjustment to accrued duties (Note 14)	**3.1**	(12.9)
Changes in mark-to-market value of derivative financial instruments	**17.0**	2.9
Employee future benefits expense	**2.9**	3.0
Finance expense, net	**10.5**	6.7
Other, net	**(0.8)**	2.6
Defined benefit plan contributions, net	**(4.7)**	(7.3)
Income taxes paid, net	**(9.6)**	(46.8)
	14.1	224.3
Net change in non-cash working capital (Note 11)	**(163.0)**	(152.1)
	(148.9)	72.2
Financing activities		
Change in operating loans (Note 6(a))	**387.4**	-
Proceeds from long-term debt (Note 6(b))	**231.7**	-
Repayment of long-term debt (Note 6(b))	**(0.2)**	(0.1)
Payment of lease obligations (Note 4(b))	**(3.3)**	-
Finance expenses paid	**(7.2)**	(3.7)
Share purchases (Note 10)	**-**	(4.2)
Acquisition of non-controlling interests	**-**	(0.1)
Cash distributions paid to non-controlling interests	**(5.0)**	(1.8)
	603.4	(9.9)
Investing activities		
Additions to property, plant and equipment, timber and intangible assets, net	**(74.7)**	(56.4)
Proceeds on disposal of property, plant and equipment	**0.2**	0.8
Preliminary consideration paid for acquisition of Vida, net of cash acquired (Note 13(b))	**(562.6)**	-
Other, net	**(0.3)**	(0.2)
	(637.4)	(55.8)
Foreign exchange gain on cash and cash equivalents	**1.8**	1.4
Increase (decrease) in cash and cash equivalents*	**(181.1)**	7.9
Cash and cash equivalents at beginning of period*	**252.7**	288.2
Cash and cash equivalents at end of period*	**$ 71.6**	$ 296.1

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Corporation and its subsidiary entities, including Canfor Pulp Products Inc. ("CPPI"), as well as the Vida Group of Sweden ("Vida") from the February 28, 2019 acquisition date, hereinafter referred to as "Canfor" or "the Company".

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2018, available at www.canfor.com or www.sedar.com.

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

These financial statements were authorized for issue by the Company's Board of Directors on May 1, 2019.

Change in Accounting Policy

Effective January 1, 2019, the Company has adopted IFRS 16 *Leases*, which supersedes IAS 17 *Leases* and related interpretations. Under IAS 17, leases were previously classified as either operating or financing for lessees based on an assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. As the Company's leases were previously classified as operating, straight-line operating lease expense was recognized over the lease term in the comparative period.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees, with a right-of-use asset ("ROU asset") representing the Company's right to use the underlying asset, and a lease obligation representing its obligation to make lease payments. Amortization expense for ROU assets and interest expense for lease obligations replaces the straight-line operating lease expense recognized under IAS 17.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Short-term and low-value recognition exemptions were applied, as well as certain practical expedients allowing for the use of hindsight to assess the lease term for contracts with extension options, the exclusion of initial direct costs from measurement of the ROU asset and the exclusion of leases with a term of less than one year remaining at the transition date.

The impact of transition is outlined under Note 4, with changes in accounting policies outlined below.

Policy applicable from January 1, 2019

Lease Definition

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An identified asset may be implicitly or explicitly specified in a contract, but must be physically distinct, and must not have the ability for substitution by a lessor. The Company has the right to control an identified asset if it obtains substantially all of its economic benefits and either pre-determines, or directs how and for what purpose the asset is used.

Measurement of Right-of-Use Assets and Lease Obligations

At lease commencement, the Company recognizes a ROU asset and a lease obligation. The ROU asset is initially measured at cost, which comprises the initial amount of the lease obligation adjusted for any lease payments made at, or before, the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The ROU asset is subsequently amortized on a straight-line basis over the shorter of the term of the lease, or the useful life of the asset determined on the same basis as the Company's property, plant and equipment. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease obligation.

The lease obligation is initially measured at the present value of lease payments remaining at the lease commencement date, discounted using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease obligation, when applicable, may comprise fixed payments, variable payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase, extension or termination option that the Company is reasonably certain to exercise.

The lease obligation is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease obligation is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset.

Recognition Exemptions

The Company has elected not to recognize ROU assets and lease obligations for short-term leases that have a lease term of twelve months or less or for leases of low-value assets. Payments associated with these leases are recognized as an operating expense on a straight-line basis over the lease term within costs and expenses on the consolidated statement of income (loss).

2. Seasonality of Operations

Canfor's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions such as forest fires, hurricanes and flooding, can cause logging curtailments which can affect the supply of raw materials to sawmills and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affect demand for solid wood products, are generally stronger in the spring and fall months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

3. Inventories

(millions of Canadian dollars, unaudited)	**As at March 31, 2019**	As at December 31, 2018
Logs	**$ 324.5**	$ 199.5
Finished products	**557.2**	389.3
Residual fibre	**35.7**	44.8
Materials and supplies	**134.7**	128.9
	$ 1,052.1	$ 762.5

The above inventory balances are stated after inventory write-downs from cost to net realizable value, which primarily reflect significant declines in prices for solid wood products towards the end of the first quarter of 2019. Total provisions for write-downs included in the inventory balances above are:

(millions of Canadian dollars, unaudited)	**As at March 31, 2019**	As at December 31, 2018
Logs	**$ 43.5**	$ 11.1
Finished products	**32.1**	25.6
	$ 75.6	$ 36.7

Inventory write-downs for the three months ended March 31, 2019 totaled $38.6 million for lumber and log inventory and $0.3 million for other finished products (three months ended March 31, 2018 – nil).

4. Leases

The Company's leased assets include land, buildings, vehicles, machinery and equipment. Effective January 1, 2019, the Company adopted IFRS 16 as outlined in Note 1, recognizing $46.1 million of ROU assets, $48.3 million of lease obligations and deferred tax assets of $0.6 million, with the difference of $1.6 million recognized in retained earnings.

The following table reconciles the Company's lease commitments disclosed in the consolidated financial statements as at and for the year ended December 31, 2018, to the lease obligations recognized on initial application of IFRS 16:

(millions of Canadian dollars, unaudited)		
Operating lease commitments at December 31, 2018	$	52.1
Recognition exemptions for short-term and low-value leases		(0.9)
Discounted using the incremental borrowing rate at January 1, 2019		(6.5)
Lease remeasurements and other transitional adjustments		3.6
Lease obligations recognized at January 1, 2019	$	48.3

Lease obligations were measured at the present value of remaining lease payments at the transition date, discounted at the Company's incremental borrowing rate. The weighted average rate applied at January 1, 2019 was 4.3% for leases originating in Canada, and 5.1% for those originating in the US.

(a) Right-of-Use Assets

(millions of Canadian dollars, unaudited)		Land		Pulp and kraft paper mills		Solid wood operations		Logging assets and other equipment		Facilities and other		Total
Cost												
Balance at January 1, 2019	$	1.5	$	7.0	$	42.4	$	6.6	$	17.8	$	75.3
Additions and acquisitions		-		-		7.9		0.1		5.4		13.4
Effect of movements in exchange rates		-		-		0.8		0.1		0.1		1.0
Balance at March 31, 2019	$	1.5	$	7.0	$	51.1	$	6.8	$	23.3	$	89.7
Amortization												
Balance at January 1, 2019	$	(0.9)	$	(3.7)	$	(14.0)	$	(1.7)	$	(8.9)	$	(29.2)
Amortization		-		(0.2)		(2.2)		(0.4)		(0.6)		(3.4)
Effects of movements in exchange rates		-		-		(0.3)		-		-		(0.3)
Balance at March 31, 2019	$	(0.9)	$	(3.9)	$	(16.5)	$	(2.1)	$	(9.5)	$	(32.9)
Carrying Amounts												
At January 1, 2019	$	0.6	$	3.3	$	28.4	$	4.9	$	8.9	$	46.1
At March 31, 2019	**$**	**0.6**	**$**	**3.1**	**$**	**34.6**	**$**	**4.7**	**$**	**13.8**	**$**	**56.8**

(b) Lease Obligations

Contractual, undiscounted cash flows associated with Company's lease obligations are as follows:

(millions of Canadian dollars, unaudited)		**As at March 31, 2019**
Within one year	**$**	**17.2**
Between one and five years		**43.4**
Beyond five years		**5.4**
Total undiscounted lease obligations	**$**	**66.0**

Discounted lease obligations recognized on the Company's consolidated balance sheet are as follows:

(millions of Canadian dollars, unaudited)		
Current	**$**	**15.5**
Non-Current		**43.9**
Total discounted lease obligations	**$**	**59.4**

Interest expense on lease obligations for the three months ended March 31, 2019 was $0.6 million and is included in finance expense. Operating lease expenses relating to short-term and low-value leases not included in the measurement of lease obligations for the three months ended March 31, 2019 was $1.9 million.

Total cash outflows for leases were $5.2 million, including the $1.9 million for short-term and low-value leases for the three months ended March 31, 2019.

5. Long-Term Investments and Other, Net

(millions of Canadian dollars, unaudited)		**As at March 31, 2019**		As at December 31, 2018
Investments	**$**	**21.6**	$	21.0
Duty deposits recoverable, net (Note 14)		**71.9**		76.6
Other deposits, loans and advances and long-term assets		**15.6**		12.8
	$	**109.1**	$	110.4

The duty deposits recoverable, net balance represents US-dollar anti-dumping and countervailing duty cash deposits paid in excess of the calculated expense accrued at March 31, 2019 (Note 14).

6. Operating Loans and Long-Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)		**As at March 31 2019**		As at December 31, 2018
Canfor (excluding CPPI and Vida)				
Available operating loans:				
Operating loan facility	**$**	**450.0**	$	450.0
Revolving credit facility		**100.0**		-
Facilities for letters of credit		**70.0**		60.0
Total operating loan facility		**620.0**		510.0
Operating loan facility drawn		**(365.0)**		-
Letters of credit		**(62.8)**		(57.4)
Total available operating loan facility - Canfor	**$**	**192.2**	$	452.6
Vida				
Available operating loans:				
Operating loan facilities	**$**	**73.3**	$	-
Overdraft facilities		**22.1**		-
Total operating loan facility		**95.4**		-
Operating loan facilities drawn		**(0.1)**		-
Overdraft facilities drawn		**(17.1)**		-
Total available operating loan facility - Vida	**$**	**78.2**	$	-
CPPI				
Available operating loans:				
Operating loan facility	**$**	**110.0**	$	110.0
Operating loan facility drawn		**(23.0)**		-
Letters of credit		**(13.0)**		(11.1)
Total available operating loan facility - CPPI	**$**	**74.0**	$	98.9
Consolidated:				
Total operating loan facilities	**$**	**825.4**	$	620.0
Total available operating loan facilities	**$**	**344.4**	$	551.5

Interest is payable on Canfor's committed operating loan facility (excluding Vida and CPPI) at floating rates based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio.

On December 14, 2018, Canfor's principal committed operating loan (excluding Vida and CPPI) was extended to January 2, 2024, and the principal was increased to $450.0 million.

On March 5, 2019, Canfor (excluding Vida and CPPI) entered into a committed revolving credit facility of $100.0 million with a maturity date of February 28, 2020. Terms of the revolving facility are largely consistent with those of Canfor's existing committed operating loan facility.

Canfor (excluding Vida and CPPI) has a separate facility to cover letters of credit. At March 31, 2019, $60.3 million of letters of credit outstanding are covered under this facility with the balance of $2.5 million covered under Canfor's general committed operating loan facility.

At acquisition on February 28, 2019, $17.2 million of Vida's $95.4 million operating loan facilities were included in the Company's consolidated balance sheet. Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 1.05% to 4.39%. Vida also has separate overdraft facilities with fixed interest rates ranging from 0.8% to 4.7%.

The terms of CPPI's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization and is based on lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin. On April 6, 2018, the maturity date of CPPI's principal operating loan facility was extended from January 31, 2020 to April 6, 2022.

At March 31, 2019, the Company had total available undrawn operating loans of $344.4 million, including undrawn revolving credit facilities and facilities for letters of credit.

Canfor and CPPI's operating loan facilities have certain financial covenants, including maximum debt to total capitalization ratios. Vida is also subject to certain financial covenants, including minimum equity and interest coverage ratios. As at March 31, 2019, Canfor, Vida and CPPI are in compliance with all covenants relating to their operating loan facilities. Substantially all borrowings of Vida and CPPI are non-recourse to other entities within the Company.

(b) Long-Term Debt

Canfor has the following long-term debt:

(millions of Canadian dollars, unaudited)		**As at March 31, 2019**		As at December 31, 2018
Canfor (excluding Vida)				
CAD$225.0 million, floating interest, repayable January 2, 2024	**$**	**225.0**	$	125.0
US$200.0 million, floating interest, repayable January 2, 2027		**267.3**		136.4
US$100.0 million, fixed interest of 4.40%, repayable in three equal tranches on October 2, 2023, 2024 and 2025		**133.6**		136.4
Other (US$7.7 million)[1]		**10.3**		10.6
Vida				
SEK 74.5 million, floating interest, repayable October 31, 2019		**10.7**		-
SEK 19.0 million, floating interest, repayable November 30, 2019		**2.7**		-
SEK 2.8 million, floating interest, repayable November 30, 2024		**0.4**		-
SEK 4.2 million, floating interest, repayable April 30, 2022		**0.6**		-
AUD 7.6 million, floating interest, with no fixed maturity date		**7.2**		-
Long-term debt at end of period	**$**	**657.8**	$	408.4
Less: Current portion		**(14.2)**		(0.4)
Long-term portion	**$**	**643.6**	$	408.0

[1] Amount relates to net financing for specific capital projects at Canfor's US sawmills.

Canfor's long-term debt, excluding Vida, is unsecured. Vida's long-term debt is secured by its property, plant and equipment assets.

On December 14, 2018, Canfor (excluding Vida) increased its Canadian dollar denominated floating interest rate term debt facility to $225.0 million and extended its maturity date from September 28, 2022 to January 2, 2024. Canfor (excluding Vida) also increased its US-dollar denominated floating rate term debt facility to US$200.0 million on December 14, 2018 and extended its maturity date from September 28, 2025 to January 2, 2027.

During the three months ended March 31, 2019, the Company drew the remaining $100.0 million from its Canadian dollar floating interest rate term debt facility, and the remaining US$100.0 million from its US-dollar term debt facility to finance the Vida acquisition and to service working capital requirements in the current quarter.

Canfor's borrowings (excluding Vida) feature similar financial covenants, including a maximum debt to total capitalization ratio. Vida's borrowings are subject to certain financial covenants including minimum equity and interest coverage ratios. As at March 31, 2019, the Company is in compliance with all covenants relating to its long-term debt.

Fair value of total long-term debt

At March 31, 2019, the fair value of the Company's long-term debt is $658.6 million (December 31, 2018 - $402.9 million). The fair value was determined based on prevailing market rates for the long-term debt with similar characteristics and risk profile.

7. Employee Future Benefits

For the three months ended March 31, 2019, defined benefit pension plan actuarial losses of $7.3 million (before tax) were recognized in other comprehensive income (loss). The losses recorded in the first quarter of 2019 principally reflect a lower discount rate used to value the net defined benefit obligation, offset in part by a higher than anticipated return on plan assets.

For the three months ended March 31, 2018, the Company recognized actuarial gains (before tax) in other comprehensive income (loss) of $13.2 million, principally reflecting a higher discount rate used to value the net defined benefit obligation, offset in party by a lower return generated on plan assets.

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

	Defined Benefit Pension Plans	**Other Benefit Plans**
March 31, 2019	**3.3%**	**3.3%**
December 31, 2018	3.6%	3.6%
March 31, 2018	3.6%	3.6%
December 31, 2017	3.4%	3.4%

8. Financial Instruments

Canfor's cash and cash equivalents, trade and other accounts receivables, accounts payable and accrued liabilities, operating loans, and long-term debt are classified as measured at amortized cost. The carrying amounts of these instruments, excluding long-term debt, approximate fair value at March 31, 2019 and December 31, 2018.

Derivative instruments and investments in debt and equity securities are classified as measured at FVTPL. IFRS 13, *Fair Value Measurement*, requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

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

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

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

The following table summarizes Canfor's financial instruments measured at fair value at March 31, 2019 and December 31, 2018, and shows the level within the fair value hierarchy in which the financial instruments have been classified:

(millions of Canadian dollars, unaudited)	Fair Value Hierarchy Level	**As at March 31, 2019**	As at December 31, 2018
Financial assets measured at fair value			
Investments	Level 1	**$ 20.6**	$ 20.1
Derivative financial instruments	Level 2	**-**	18.8
		$ 20.6	$ 38.9
Financial liabilities measured at fair value			
Derivative financial instruments	Level 2	**$ 0.1**	$ 0.6
		$ 0.1	$ 0.6

The following table summarizes the loss on derivative financial instruments for the three-month periods ended March 31, 2019 and March 31, 2018:

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2019	2018
Lumber futures	**$ 5.1**	$ (7.9)
Energy derivatives	**-**	(0.1)
Forward foreign exchange contracts	**(33.5)**	-
Loss on derivative financial instruments	**$ (28.4)**	$ (8.0)

Forward foreign exchange contracts were entered into in the fourth quarter of 2018 and first quarter of 2019 to reduce the Company's risk against fluctuations in the Swedish Krona associated with the acquisition of Vida (Note 13(b)). The contracts were settled on February 26, 2019, resulting in the derecognition of the December 31, 2018 derivative financial asset of $18.8 million, and recognition of a realized loss of $15.7 million.

Following the acquisition of Vida, the Company from time to time enters into forward foreign exchange contracts in multiple currencies to reduce its exposure to sales denominated in currencies other than US, SEK or CAD.

9. Income Taxes

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2019	2018
Current	**$ 16.7**	$ (56.8)
Deferred	**8.4**	6.1
Income tax recovery (expense)	**$ 25.1**	$ (50.7)

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

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2019	2018
Income tax recovery (expense) at statutory rate – 27% (2018 – 27%)	**$ 29.2**	$ (51.9)
Add (deduct):		
Non-taxable income related to non-controlling interests	**-**	0.1
Entities with different income tax rates and other tax adjustments	**(0.1)**	1.6
Permanent difference from capital gains and losses and other non-deductible items	**(4.0)**	(0.5)
Income tax recovery (expense)	**$ 25.1**	$ (50.7)

In addition to the amounts recorded to net income, a tax recovery of $2.0 million was recorded in other comprehensive income (loss) for the three months ended March 31, 2019 in relation to actuarial losses on the defined benefit plans (three months ended March 31, 2018 – expense of $3.6 million in relation to actuarial gains).

Also included in other comprehensive income (loss) for the three months ended March 31, 2019 was a tax recovery of $0.8 million related to foreign exchange differences on translation of investments in foreign operations (three months ended March 31, 2018 – expense of $1.0 million).

10. Earnings Per Share and Normal Course Issuer Bid

Basic net income (loss) per share is calculated by dividing the net income (loss) attributable to common equity shareholders by the weighted average number of common shares outstanding during the period.

	3 months ended March 31, 2019	2018
Weighted average number of common shares	**125,219,400**	128,625,909

On March 4, 2019, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,260,970 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2019. The renewed normal course issuer bid is set to expire on March 6, 2020.

During the first quarter of 2019, the Company did not purchase any shares. During the first quarter of 2018, the Company purchased 19,500 shares for $0.5 million (an average of $25.64 per common share), and paid an additional $3.7 million in relation to shares purchased in the prior year. As at March 31, 2019 and May 1, 2019 there were 125,219,400 common shares of the Company outstanding.

As at March 31, 2019 and May 1, 2019, Canfor's ownership interest in CPPI was 54.8%.

11. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)		3 months ended March 31, **2019**		2018
Accounts receivable	**$**	**(65.2)**	$	(51.5)
Inventories		**(97.1)**		(139.7)
Prepaid expenses and other		**(19.9)**		(17.4)
Accounts payable, accrued liabilities and current portion of deferred reforestation		**19.2**		56.5
Net increase in non-cash working capital	**$**	**(163.0)**	$	(152.1)

12. Segment Information

Canfor has two reportable segments (lumber segment and pulp and paper segment), which offer different products and are managed separately because they require different production processes and marketing strategies.

Sales between segments are accounted for at prices that approximate fair value. These include sales of residual fibre from the lumber segment to the pulp and paper segment for use in the pulp production process.

The Company's panels business does not meet the criteria to be reported fully as a separate segment and is included in Unallocated & Other below.

The primary business activities of Vida acquired on February 28, 2019 (Note 13(b)) include the manufacturing and sale of various grades, widths and lengths of lumber, wood chips and wood pellets, which is consistent with Canfor's lumber segment. The results of these businesses are therefore reported in the Company's lumber segment.

(millions of Canadian dollars, unaudited)		Lumber		Pulp & Paper		Unallocated & Other		Elimination Adjustment		Consolidated
3 months ended March, 2019										
Sales from contracts with customers	**$**	**844.7**	**$**	**304.0**	**$**	**-**	**$**	**-**	**$**	**1,148.7**
Sales to other segments		**63.4**		**-**		**-**		**(63.4)**		**-**
Operating income (loss)		**(78.0)**		**18.1**		**(10.0)**		**-**		**(69.9)**
Amortization		**64.0**		**22.3**		**0.2**		**-**		**86.5**
Capital expenditures[2]		**48.3**		**25.5**		**0.9**		**-**		**74.7**
Identifiable assets		**3,735.9**		**933.8**		**261.4**		**-**		**4,931.1**
3 months ended March 31, 2018										
Sales from contracts with customers	$	873.9	$	359.6	$	-	$	-	$	1,233.5
Sales to other segments		50.1		0.1		-		(50.2)		-
Operating income (loss)		125.9		85.1		(7.2)		-		203.8
Amortization		45.6		19.2		-		-		64.8
Capital expenditures[2]		33.1		19.8		3.5		-		56.4
Identifiable assets		2,465.6		843.1		416.4		-		3,725.1

[2]Capital expenditures represent cash paid for capital assets during the periods, excluding assets purchased as part of the acquisition of the Vida Group (Note 13(b)). Pulp & Paper includes capital expenditures by CPPI that were partially financed by government grants.

Geographic information

Canfor operates manufacturing facilities in Canada, the US and Europe. Canfor's products are marketed worldwide, with sales made to customers in a number of different countries. In presenting information on the basis of geographical location, sales are based on the geographical location of customers.

	3 months ended March 31,	
(millions of Canadian dollars, unaudited)	**2019**	2018
Sales by location of customer		
Canada	**$ 129.4**	$ 147.7
Asia	**316.3**	392.3
United States	**577.8**	648.5
Europe	**92.2**	20.9
Other	**33.0**	24.1
	$ 1,148.7	$ 1,233.5

13. Acquisitions

(a) Elliott Sawmilling Co., Inc.

On November 9, 2018, the Company announced that it had entered into an agreement to purchase 100% of Elliott Sawmilling Co., Inc., ("Elliott") located in Estill, South Carolina for total consideration of approximately $150.0 million (US$110.0 million) including working capital. The transaction will be completed in two phases, with 49% acquired upon closing, and 51% being acquired one year later. Elliott has an annual production capacity in excess of 210 million board feet.

The transaction is anticipated to close in the second quarter of 2019, following the completion of due diligence, certain transaction documents and other customary closing conditions.

(b) Vida Group of Sweden

On February 28, 2019, the Company completed the acquisition of 70% of Vida, Sweden's largest privately-owned sawmill company, for $590.2 million (4,136 million SEK), plus transaction and closing costs, and including estimated net working capital.

The acquisition method of accounting was applied in accordance with IFRS 3, *Business Combinations*, when Canfor acquired control of Vida on February 28, 2019.

The acquisition included nine sawmills in southern Sweden, producing up to 1.1 billion board feet of spruce and pine products annually, and nine value added facilities that produce packaging, modular housing, industrial products and energy.

The following tables summarize the preliminary consideration paid for Vida and preliminary recognized amounts of identifiable assets acquired and liabilities assumed, and the 30% non-controlling interest retained by Vida shareholders at the acquisition date:

(millions of Canadian dollars, unaudited)	
Total preliminary consideration	$ 590.2
Less: consideration holdback	(9.7)
Total cash preliminary consideration paid	$ 580.5
Less: cash acquired	(17.9)
Total cash preliminary consideration paid, net of cash acquired	$ 562.6

(millions of Canadian dollars, unaudited)		
Cash	$	17.9
Operating loan facilities (including overdraft facilities) (Note 6(a))		(17.6)
Long-term debt (Note 6(b))		(21.6)
Non-cash working capital, net (including inventory)		210.8
Property, plant and equipment		475.3
Right-of-use assets		9.9
Other non-current assets		3.7
Lease obligations		(9.9)
Other non-current liabilities (including deferred tax)		(29.4)
Total preliminary net identifiable assets	$	639.1
Non-controlling interest		(193.4)
Preliminary goodwill		213.1
Deferred tax liability on fair value adjustments, net		(68.6)
Total preliminary consideration	$	590.2

Following integration of Vida and completion of final review procedures related to the independent valuation of property, plant and equipment, preliminary amounts above may be revised.

The Company incurred acquisition-related costs of $4.2 million, principally relating to external legal fees and due diligence costs, which have been included in selling and administrative expense. These amounts were recorded in the Company's consolidated statement of income (loss) when incurred.

Balances that required significant preliminary fair value adjustments for purchase price accounting included inventory, property, plant and equipment, goodwill and deferred income taxes. The preliminary goodwill of $213.1 million recognized as part of the purchase is calculated as the excess of the aggregate consideration transferred and the amount of non-controlling interests over the fair value of the estimated identifiable assets acquired and liabilities assumed. Canfor elected to calculate the non-controlling interest related to Vida as 30% of the fair value of the preliminary net identifiable assets acquired, adjusted for Vida's existing non-controlling interests at the acquisition date.

The preliminary goodwill arising from the acquisition is attributable to management strength, expected future income and cash-flow projections, access to new international markets and the ability to further diversify Canfor's current product offering. As part of the consolidation of Vida, a preliminary net deferred tax liability of $68.6 million was recognized for differences between tax and accounting values of property, plant and equipment and inventory.

At the acquisition date, Canfor recorded a put liability of SEK 830.1 million or CAD$118.6 million relating to Vida's non-controlling shareholders' option to sell their remaining 30% ownership interest to the Company in 3 to 10 years' time. Key assumptions used in the valuation model to estimate this put liability include historical and forecast pricing, costs and exchange rates, which the Company's management determined with reference to internal and external publications, where applicable. A discount rate of 10%, reflecting an estimated market rate of return, was used for the purpose of estimating this liability. This put liability is translated to the Canadian dollar at each reporting period, with foreign currency differences arising on translation recognized in other comprehensive income and recorded to the accumulated foreign exchange translation account. Subsequent changes to the measurement of the put liability will be recognized in other equity.

14. Countervailing and Anti-Dumping Duties

On November 25, 2016, a petition was filed by the US Lumber Coalition to the US Department of Commerce ("DOC") and the US International Trade Commission ("ITC") alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers, an assertion the Canadian industry and Provincial and Federal Governments strongly deny and have successfully disproven in international courts in the past. Canfor was selected by the DOC as a "mandatory respondent" to the countervailing and anti-dumping investigations as part of the DOC's preliminary duty determinations and as a result, has been subject to company specific countervailing duties ("CVD") and anti-dumping duties ("ADD"). Canfor anticipates that it will be selected as a mandatory respondent for the first period of review for both CVD and ADD.

On April 24, 2017, the DOC announced its preliminary CVD rate of 20.26% specific to Canfor, to be posted by cash deposits or bonds on the exports of softwood lumber to the US effective April 28, 2017 to August 25, 2017. Following this period, CVD duties were not applicable on lumber shipments destined to the US from August 26, 2017 to December 27, 2017. On June 23, 2017, the DOC announced its preliminary ADD rate of 7.72% specific to Canfor, to be posted by cash deposits or bonds on the exports of softwood lumber to the US effective June 30, 2017.

Final countervailing and anti-dumping duty determinations were announced by the DOC on November 2, 2017, while the ITC issued an affirmative determination of injury on December 7, 2017. As a result, Canfor was issued a final ADD rate of 7.28% effective November 8, 2017, and was subject to countervailing duties on Canadian lumber exports destined to the US at a reduced rate of 13.24%, effective December 28, 2017. Notwithstanding the final rates established in the DOC's investigation, the final liability for the assessment of CVD and ADD will not be determined until an official administrative review of the respective period is complete. For the CVD rate, the first period of review will be based on sales and cost data through 2017 and 2018, with the ADD rate based off data from July 2017 to December 2018. The administrative review related to the first period is currently anticipated to be completed in 2020.

In 2018, cash deposits were posted reflecting the final published ADD rate of 7.28% and CVD rate of 13.24%, with ADD expense accrued at 2.9% for the applicable 2017 and 2018 combined period. Subsequent to year-end, by applying DOC's methodology to updated sales and cost data available with respect to the first administrative period of review, the estimate of the Company's ADD accrual rate for the first administrative period of review decreased by 0.3% to 2.6%, with an ADD recovery of $4.3 million recognized in the three months ended March 31, 2019.

In 2019, Canfor moved into a new period of administrative review, with an estimated ADD accrual rate of 13.0% based on applying DOC's methodology to sales and cost data for the three months ended March 31, 2019. This equates to a combined accrual rate of 26.24% and duty expense of $40.6 million being recognized for the three months ended March 31, 2019. Canfor will continue to reassess the ADD accrual estimate at each quarter-end, applying the DOC's methodology to updated sales and cost data as this becomes available. Quarterly revisions to the ADD rate may result in a material adjustment to the Income Statement while the Administrative Reviews are taking place. Changes to the DOC's existing CVD and ADD rates during the course of each Administrative Review may also result in material adjustments to the Income Statement.

Since 2017, cumulative cash duties paid to March 31, 2019 were $317.2 million.

As at March 31, 2019, Canfor has recorded a net duty deposits recoverable of $71.9 million, consisting of a $79.3 million recoverable reflecting the difference over the eighteen month first administrative review period between the combined cash deposit rate of 20.52% and the combined accrual rate for accounting purposes for that period of 16.44%, offset by a payable of $7.4 million reflecting the difference over the current second period of review between the combined cash deposit rate of 20.52% and the combined accrual rate for accounting purposes of 26.24%. The net balance related to the first and second administrative review periods are recognized in long-term investments and other, net (Note 5).

Canfor and other Canadian forest product companies, the Federal Government and Canadian Provincial Governments categorically deny the US allegations and strongly disagree with the current countervailing and anti-dumping determinations made by the DOC. Canada has proceeded with legal challenges under NAFTA and through the World Trade Organization, where Canadian litigation has proven successful in the past.

15. Subsequent Event

Subsequent to quarter end, on April 4, 2019, Canfor entered into an agreement with a third party to provide Canfor with an annual fibre supply of approximately 125,000m^3 over a period of twenty five years for $19.5 million. Canfor advanced a total of $19.5 million to the counterparty under the terms of the agreement on April 5, 2019.