2019

QUARTER TWO

INTERIM REPORT

FOR THE THREE MONTHS ENDED JUNE 30, 2019

CANFOR PULP PRODUCTS INC.

To Our Shareholders

Canfor Pulp Products Inc. ("CPPI") today reported second quarter 2019 results and its quarterly dividend:

Overview

- Second quarter of 2019 reported operating income of $18 million
- Operating income of $32 million after adjusting for inventory write-downs
- Net income of $11 million, or $0.16 per share

Financial Results

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

(millions of Canadian dollars, except per share amounts)	Q2 2019	Q1 2019	YTD 2019	Q2 2018	YTD 2018
Sales	**$ 319.5**	$ 304.0	**$ 623.5**	$ 396.4	$ 756.1
Reported operating income before amortization	**$ 41.7**	$ 40.4	**$ 82.1**	$ 105.1	$ 209.4
Reported operating income	**$ 18.4**	$ 18.1	**$ 36.5**	$ 85.4	$ 170.5
Adjusted operating income before amortization[1]	**$ 55.1**	$ 40.4	**$ 95.5**	$ 105.1	$ 209.4
Adjusted operating income[1]	**$ 31.8**	$ 18.1	**$ 49.9**	$ 85.4	$ 170.5
Net income	**$ 10.6**	$ 10.8	**$ 21.4**	$ 63.0	$ 127.3
Net income per share, basic and diluted	**$ 0.16**	$ 0.17	**$ 0.33**	$ 0.97	$ 1.95

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.
[1] Adjusted for inventory write-down (expense of $13.4 million in the second quarter of 2019).

The Company reported operating income of $18.4 million for the second quarter of 2019, up $0.3 million from the first quarter of 2019. Reported results for the second quarter of 2019 included a $13.4 million finished pulp and raw material inventory write-down at period end. After adjusting for this, the Company's operating income was $31.8 million for the second quarter of 2019, up $13.7 million from the previous quarter.

The Company's operating results reflected a solid operating performance at the Company's pulp and paper mills, which more than offset the effects of pricing declines due to continued elevated global market pulp inventory levels and weaker demand, particularly in China and Europe.

After showing a modest recovery in March, Northern Bleached Softwood Kraft ("NBSK") pulp prices to China, the world's largest pulp consumer, fell sharply, declining US$130 per tonne, or 18%, to end the quarter at US$600 per tonne. The average US-dollar NBSK pulp list price to China for the second quarter of 2019 was US$653 per tonne, down US$57 per tonne, or 8%, from the previous quarter. Prices to other global regions, including North America and Europe, also came under significant pressure as the quarter progressed, but quarter-over-quarter showed more modest declines. Notwithstanding the significant decline in global pulp list prices, the Company's average NBSK pulp unit sales realizations showed a more moderate decrease compared to the previous quarter, primarily reflecting the Company's geographic sales mix and the timing of shipments (versus orders).

Energy revenues increased in the current quarter as seasonally lower energy prices were more than offset by increased power generation, driven by improved productivity and a full quarter with Northwood's new Turbo Generator Condensing turbine in operation.

Pulp production was 300,000 tonnes, up 26,000 tonnes, or 9%, from the previous quarter reflecting improved operating rates at all pulp mills throughout most of the current quarter. During the second quarter, the Company completed scheduled maintenance outages at its Intercontinental NBSK pulp and Taylor Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mills, which reduced pulp production by 11,000 tonnes and 6,000 tonnes, respectively. Pulp shipments were up 29,000 tonnes, or 11%, from the previous quarter reflecting the increase in pulp production.

Pulp unit manufacturing costs were moderately lower than the previous quarter, principally reflecting improved productivity and seasonally lower energy usage. Fibre costs showed a modest decline, with lower market-based prices for sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) offsetting increased seasonal pricing adjustments and a higher proportion of higher-cost whole log chips. The latter reflected the impact of curtailments on the supply of sawmill residual chips, which will continue into the third quarter.

Operating income in the Company's paper segment was $8.1 million, up $2.2 million from the first quarter of 2019, reflecting both lower slush pulp costs, linked to lower Canadian dollar NBSK pulp prices, and a solid operating performance.

Global softwood pulp markets are projected to remain challenging through the third quarter of 2019 given the current oversupply in global pulp markets and typically seasonally slower demand in the summer months. Reflecting the difficult market conditions, in combination with fibre supply constraints and higher fibre costs resulting from recent sawmill curtailments, the Company is taking phased summer curtailments at its Intercontinental and Northwood NBSK pulp mills in Prince George, British Columbia ("BC"), as well as at its BCTMP mill in Taylor, BC. In addition, the Company announced today that it will be extending the curtailment at its BCTMP mill by a further five weeks to September 9, 2019. Combined, the summer curtailments will reduce third quarter pulp production by an estimated 75,000 tonnes of NBSK pulp and 50,000 tonnes of BCTMP, respectively. Maintenance outages are also scheduled at the Prince George NBSK pulp mill and at the Company's paper mill in September 2019, with a projected 6,000 tonnes of reduced NBSK pulp production and 4,000 tonnes of reduced paper production, respectively.

Towards the end of 2019 and into 2020, global inventory levels are forecast to move towards a more balanced range reflecting a gradual drawdown of inventory that will include the anticipated impact of the conversion to dissolving pulp of two large NBSK pulp mills outside of North America by the end of 2019, as well as production curtailments. Given the impacts of recently announced sawmill curtailments and closures in the BC Interior, fibre costs are projected to remain under pressure as a result of an increased proportion of higher-cost whole log chips, which are currently in tight supply. Bleached kraft paper demand is anticipated to decline slightly through the balance of the year.

On July 25, 2019, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on August 14, 2019 to the shareholders of record on August 7, 2019.

Conrad A. Pinette
Chairman

Don B. Kayne
Chief Executive Officer

Canfor Pulp Products Inc.
Second Quarter 2019
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the quarter ended June 30, 2019 relative to the quarters ended March 31, 2019 and June 30, 2018, and the financial position of the Company at June 30, 2019. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended, June 30, 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 CPPI'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 before Amortization and Adjusted Operating Income which CPPI considers to be a relevant indicator for measuring trends in the Company's performance and its ability to generate funds to meet its debt service and capital expenditure requirements, and to pay dividends. Reference is also made to Adjusted Net Income (calculated as Net Income less specific items affecting comparability with prior periods) and Adjusted Net Income per Share (calculated as Adjusted Net Income divided by the weighted average number of shares outstanding during the period). Operating Income before Amortization, Adjusted Operating Income, Adjusted Net Income and Adjusted Net Income per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, CPPI's Operating Income before Amortization, Adjusted Operating Income, Adjusted Net Income and Adjusted Net Income per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income before Amortization to Operating Income and Adjusted Net Income to Net Income reported in accordance with IFRS are included in this MD&A. Throughout this discussion reference is made to the current quarter which refers to the results for the second 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 CPPI.

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at July 25, 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.

SECOND QUARTER 2019 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q2 2019	Q1 2019	YTD 2019	Q2 2018	YTD 2018
Operating income (loss) by segment:					
Pulp	**$ 12.9**	$ 15.5	**$ 28.4**	$ 86.6	$ 173.0
Paper	**$ 8.1**	$ 5.9	**$ 14.0**	$ 1.5	$ 4.4
Unallocated	**$ (2.6)**	$ (3.3)	**$ (5.9)**	$ (2.7)	$ (6.9)
Total operating income	**$ 18.4**	$ 18.1	**$ 36.5**	$ 85.4	$ 170.5
Add: Amortization[1]	**$ 23.3**	$ 22.3	**$ 45.6**	$ 19.7	$ 38.9
Total operating income before amortization	**$ 41.7**	$ 40.4	**$ 82.1**	$ 105.1	$ 209.4
Add (deduct):					
Working capital movements	**$ 13.4**	$ (34.1)	**$ (20.7)**	$ (7.7)	$ (29.9)
Defined benefit plan contributions, net	**$ (1.4)**	$ (1.1)	**$ (2.5)**	$ (1.7)	$ (3.4)
Income taxes received (paid)	**$ (0.4)**	$ (4.0)	**$ (4.4)**	$ 0.2	$ (18.9)
Other operating cash flows, net	**$ (1.0)**	$ (0.6)	**$ (1.6)**	$ 2.0	$ 7.8
Cash from operating activities	**$ 52.3**	$ 0.6	**$ 52.9**	$ 97.9	$ 165.0
Add (deduct):					
Payment of lease obligations[2]	**$ (0.2)**	$ (0.2)	**$ (0.4)**	$ -	$ -
Dividends paid	**$ (4.1)**	$ (4.1)	**$ (8.2)**	$ (4.1)	$ (8.2)
Finance expenses paid	**$ (1.0)**	$ (0.7)	**$ (1.7)**	$ (1.0)	$ (1.7)
Capital additions, net	**$ (24.4)**	$ (25.5)	**$ (49.9)**	$ (24.8)	$ (44.6)
Share purchases	**$ -**	$ -	**$ -**	$ -	$ (0.1)
Other, net	**$ -**	$ -	**$ -**	$ 0.5	$ 0.8
Change in cash / operating loans	**$ 22.6**	$ (29.9)	**$ (7.3)**	$ 68.5	$ 111.2
ROIC – Consolidated period-to-date[3]	**2.4%**	2.4%	**4.8%**	12.9%	25.8%
Average exchange rate (US$ per C$1.00)[4]	**$ 0.748**	$ 0.752	**$ 0.750**	$ 0.774	0.782

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

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

[2] 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.

[3] 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.

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

The Company reported operating income of $18.4 million for the second quarter of 2019, up $0.3 million from the first quarter of 2019. Reported results for the second quarter of 2019 included a $13.4 million finished pulp and raw material inventory write-down at period end. After adjusting for this, the Company's operating income was $31.8 million for the second quarter of 2019, up $13.7 million from the previous quarter.

The Company's operating results reflected a solid operating performance at the Company's pulp and paper mills, which more than offset the effects of pricing declines due to continued elevated global market pulp inventory levels and weaker demand, particularly in China and Europe.

Compared to the second quarter of 2018, operating income was down $67.0 million reflecting significantly lower average Northern Bleached Softwood Kraft ("NBSK") pulp and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") prices, and, to a lesser extent lower shipments and higher fibre costs (in part relating to whole log chips) in the current quarter, partially offset by a 3 cent, or 3%, weaker Canadian Dollar.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	Q2 2019	Q1 2019	YTD 2019	Q2 2018	YTD 2018
Sales	**$ 270.9**	$ 255.1	**$ 526.0**	$ 351.5	$ 669.0
Operating income before amortization[5]	**$ 35.3**	$ 36.9	**$ 72.2**	$ 105.2	$ 209.7
Operating income	**$ 12.9**	$ 15.5	**$ 28.4**	$ 86.6	$ 173.0
Inventory write-downs	**$ 13.4**	$ 0.3	**$ 13.7**	$ -	$ -
Adjusted operating income	**$ 26.3**	$ 15.8	**$ 42.1**	$ 86.6	$ 173.0
Average NBSK pulp price delivered to China – US$[6]	**$ 653**	$ 710	**$ 682**	$ 910	$ 910
Average NBSK pulp price delivered to China – Cdn$[6]	**$ 873**	$ 944	**$ 910**	$ 1,176	$ 1,164
Production – pulp (000 mt)	**299.9**	274.2	**574.1**	296.5	608.2
Shipments – pulp (000 mt)	**288.1**	258.8	**546.9**	328.6	638.6

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

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

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

Markets

Global pulp markets continued to decline in the second quarter of 2019, as rising global softwood pulp inventory levels in excess of the balanced range, reflected weaker demand, particularly in China and Europe. After showing a modest recovery in March, NBSK pulp prices to China, the world's largest pulp consumer, fell sharply, declining US$130, or 18%, to end the quarter at US$600 per tonne. The average US-dollar NBSK pulp list price to China for the second quarter of 2019 was US$653 per tonne, down US$57 per tonne, or 8%, from the previous quarter, and down US$257 per tonne or 28% compared to the second quarter of 2018. Prices to other global regions, including North America and Europe, also came under significant pressure as the quarter progressed, but quarter-over-quarter showed more modest declines when compared to the same comparative periods.

Softwood pulp producer inventories at the end of May 2019 were well above the balanced range at 39 days of supply up slightly from March 2019[7] (Market conditions are generally considered balanced when inventories are in the 27-33 days of supply range). Global shipments of bleached softwood pulp increased 1.4%[8], for the first five months of 2019 compared to the first five months of 2018, driven primarily by a 5.8% increase in shipments to China. This modest increase was in contrast to global shipments of bleached hardwood pulp, which declined significantly through the first five months of 2019, with 62 days of supply in inventories at the end of May 2019.

Sales

The Company's pulp shipments for the second quarter of 2019 were 288,000 tonnes, up 29,000 tonnes, or 11%, from the previous quarter and down 41,000 tonnes, or 12%, from the second quarter of 2018. Pulp shipments in the current quarter reflected a 9% increase in pulp production when compared to the previous quarter. Compared to the second quarter of 2018, the decline in pulp shipments was driven by the combination of a drawdown of inventory in the comparative period as well as weaker global market demand in the current quarter.

Average NBSK pulp unit sales realizations moderately decreased when compared to the first quarter of 2019, primarily reflecting the US$57 per tonne, or 8%, decline in US-dollar NBSK pulp list pricing to China, mitigated in part by the Company's geographic sales mix and the timing of shipments (versus orders). Average BCTMP sales unit realizations saw a more modest decline over the same period, reflecting a marginal drop in average US-dollar prices, with prices coming under significant pressure later in the quarter.

[7] 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").

[8] As reported PPPC statistics.

Compared to the second quarter of 2018, the Company's average NBSK pulp unit sales realizations were down significantly, primarily driven by the US$257 per tonne, or 28%, decline in the average US-dollar NBSK pulp list price to China, in part moderated by more modest declines in US-dollar prices to North America, and a weaker Canadian dollar in the current quarter. Average BCTMP unit sales realizations showed a sharp decline compared to the second quarter of 2018, reflecting lower BCTMP US-dollar pricing in the current quarter, partially offset by the weaker Canadian dollar.

Energy revenues increased in the current quarter when compared to both comparative periods, as seasonally lower energy prices were more than offset by increased power generation, driven by improved productivity and a full quarter with Northwood's new Turbo Generator Condensing turbine in operation.

Operations

Pulp production was 300,000 tonnes for the second quarter of 2019, up 26,000 tonnes, or 9%, from the previous quarter, reflecting improved operating rates at all pulp mills throughout much of the current quarter. During the second quarter of 2019, the Company completed scheduled maintenance outages at its Intercontinental NBSK pulp and Taylor BCTMP mills, which reduced pulp production by 11,000 tonnes and 6,000 tonnes, respectively. Compared to the second quarter of 2018, pulp production was up 3,000 tonnes, or 1%, primarily reflecting the impact of quarter-over-quarter scheduled maintenance outages, including the outage at its Prince George NBSK pulp and Taylor BCTMP mills in the comparative period, which reduced pulp production by 21,000 tonnes.

Pulp unit manufacturing costs were moderately lower in the current quarter compared to the first quarter of 2019 principally reflecting improved productivity and seasonally lower energy usage. Fibre costs showed a modest decline, with lower market-based prices for sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) offsetting increased seasonal pricing adjustments and a higher proportion of higher-cost whole log chips. Compared to the second quarter of 2018, pulp unit manufacturing costs were slightly higher, reflecting higher fibre costs related to a larger proportion of higher-cost whole log chips, and increased delivered sawmill residual chip costs associated with reduced fibre availability following recent sawmill curtailments.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars unless otherwise noted)	**Q2 2019**	Q1 2019	**YTD 2019**	Q2 2018	YTD 2018
Sales	**$ 48.6**	$ 48.5	**$ 97.1**	$ 44.7	$ 86.7
Operating income before amortization[9]	**$ 9.0**	$ 6.8	**$ 15.8**	$ 2.6	$ 6.6
Operating income	**$ 8.1**	$ 5.9	**$ 14.0**	$ 1.5	$ 4.4
Production – paper (000 mt)	**36.0**	35.0	**71.0**	30.6	64.9
Shipments – paper (000 mt)	**33.3**	32.7	**66.0**	32.6	64.6

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.
[9] Amortization includes amortization of certain capitalized major maintenance costs.

Markets

Global kraft paper markets weakened throughout the second quarter of 2019, particularly in Asian markets, while North American and Europe markets remained fairly stable.

Sales

The Company's paper shipments in the second quarter of 2019 were 33,000 tonnes, broadly in line with the previous quarter and second quarter of 2018.

Paper unit sales realizations for the second quarter of 2019 were largely consistent with the previous quarter, as a market-driven modest decline in US-dollar pricing towards the latter part of the quarter was offset by a slightly weaker Canadian dollar. Compared to the second quarter of 2018, paper unit sales realizations were moderately higher, reflecting improved US-dollar prices and the weaker Canadian dollar in the current quarter.

Operations

Paper production for the second quarter of 2019 was 36,000 tonnes, broadly in line with the previous quarter and up 5,000 tonnes or 18% from the second quarter of 2018. When compared to the second quarter of 2018, the increase reflected a scheduled maintenance outage completed in the comparative period which reduced paper production by approximately 4,000 tonnes, and, to a lesser extent, improved operating rates in the current quarter.

Paper unit manufacturing costs were modestly lower than the first quarter of 2019 and down significantly when compared to the second quarter of 2018. The decrease when compared to both comparative periods was principally driven by reduced slush pulp costs associated with decline in Canadian dollar NBSK pulp unit sales realizations in the current quarter.

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)	**Q2 2019**	Q1 2019	**YTD 2019**	Q2 2018	YTD 2018
Corporate costs	**$ (2.6)**	$ (3.3)	**$ (5.9)**	$ (2.7)	$ (6.9)
Finance expense, net	**$ (1.9)**	$ (1.5)	**$ (3.4)**	$ (1.3)	$ (2.5)
Other income (expense), net	**$ (1.8)**	$ (1.9)	**$ (3.7)**	$ 2.2	$ 6.0

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

Corporate costs were $2.6 million for the second quarter of 2019, down $0.7 million from the previous quarter reflecting costs associated with organizational reductions in senior management and higher legal costs recorded in the comparative period. Corporate costs were broadly in line with the second quarter of 2018.

Net finance expense for the second quarter of 2019, at $1.9 million, was up $0.4 million and $0.6 million from the first quarter of 2019 and the second quarter of 2018, respectively. For the most part, the increased interest expense was associated with higher balances drawn on the Company's principal operating facility during much of the current quarter.

Other expense, net of $1.8 million for the second quarter of 2019 was in line with the previous quarter, and down $4.0 million from the second quarter of 2018, principally reflecting unfavourable foreign exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income (Loss)

In the second quarter of 2019, the Company recorded a gain of $14.5 million (before tax) related to changes in the valuation of the Company's employee future benefits plans. The gains primarily reflected a 50% reduction in Medical Service Plan ("MSP") premiums realized in the second quarter of 2019 following a change in legislation in British Columbia ("BC"), and, to a lesser extent, a return on assets greater than the discount rate. The gains were partially offset by a 0.3% decrease in the discount rate used to value the employee future benefit plan obligation. The 50% reduction in MSP, when combined with the initial 50% reduction recognized in the fourth quarter of 2017, has resulted in a gain of $47.4 million, or $0.73 per common share, reflected as a reduction in the Company's non-pension post-retirement benefit obligation.

In the first quarter of 2019, a loss of $3.4 million (before tax) was recognized, largely reflecting a 0.3% decrease in the discount rate offset in part by a lower than anticipated return on plan assets, and a gain of $0.1 million (before tax) was recorded in the second quarter of 2018, principally reflecting a return on plan assets greater than the discount rate.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)	**Q2 2019**	Q1 2019	**YTD 2019**	Q2 2018	YTD 2018
Increase (decrease) in cash and cash equivalents	**$ (0.4)**	$ (6.9)	**$ (7.3)**	$ 68.5	$ 111.2
Operating activities	**$ 52.3**	$ 0.6	**$ 52.9**	$ 97.9	$ 165.0
Financing activities	**$ (28.3)**	$ 18.0	**$ (10.3)**	$ (5.1)	$ (10.0)
Investing activities	**$ (24.4)**	$ (25.5)	**$ (49.9)**	$ (24.3)	$ (43.8)
Ratio of current assets to current liabilities			**2.2 : 1**		2.4 : 1
Net debt (cash) to capitalization[10]			**0.0%**		(37.2)%
ROIC – Consolidated period-to-date	**2.4%**	2.4%	**4.8%**	12.9%	25.8%

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

[10] Net debt (cash) to capitalization is equal to net debt (cash) divided by net capitalization. Net debt (cash) is equal to interest-bearing debt less cash and cash equivalents on hand. Net capitalization is equal to net debt (cash) plus total equity.

Changes in Financial Position

Cash generated from operating activities in the second quarter of 2019 was $52.3 million, up $51.7 million from the first quarter of 2019 and down $45.6 million from the second quarter of 2018. The increase in operating cash flows compared to the first quarter of 2019 largely reflected favourable movements in non-cash working capital balances, and to a lesser extent, lower tax installment payments. The former primarily reflected a timing-related increase in accounts payable and accrued liabilities at the end of the second quarter of 2019, combined with a decrease in wood chips and log inventories driven by reduced fibre deliveries following recent sawmill curtailments during the current quarter, which more than offset an increase in finished pulp inventories. Compared to the second quarter of 2018, the decrease in operating cash flows primarily reflected lower cash earnings, partially offset by favourable movements in non-cash working capital in the current period.

Cash used for financing activities in the second quarter of 2019 was $28.3 million, compared to cash generated of $18.0 million in the first quarter of 2019 and cash used of $5.1 million in the second quarter of 2018. Cash used for financing activities in the current quarter principally related to a $23.0 million repayment of the Company's principal operating loan facility and payment of a quarterly dividend of $4.1 million ($0.0625 per common share). Financing activities in the first quarter of 2019 related to a $23.0 million draw down of the Company's principal operating loan facility, offset in part by a quarterly dividend of $4.1 million ($0.0625 per common share). Cash used for financing in the second quarter of 2018 primarily reflected a quarterly dividend of $4.1 million ($0.0625 per common share).

Cash used for investing activities was $24.4 million in the second quarter of 2019 and primarily related to smaller high-return discretionary projects and maintenance-of-business capital, combined with capital expenditures associated with the Company's new ERP software system, which went live in May 2019. Cash used for investing activities in the current quarter was broadly in line with both the first quarter of 2019 and the second quarter of 2018.

Liquidity and Financial Requirements

At June 30, 2019, the Company had a $110.0 million unsecured operating loan facility and $13.0 million reserved for several standby letters of credit. During the second quarter of 2019, the Company repaid $23.0 million of its operating loan facility drawn during the first quarter of 2019. At the end of the second quarter, the Company had $97.0 million available and undrawn on its operating loan facility.

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization, and is based on the lenders' Canadian prime rate, bankers acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin. The facility has certain financial covenants including a covenant based on maximum debt to total capitalization of the Company.

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

On March 4, 2019, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,262,537 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. The Company did not purchase any common shares during the first and second quarters of 2019.

As at June 30, 2019 and July 25, 2019, there were 65,250,759 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%.

Dividends

On July 25, 2019, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on August 14, 2019 to the shareholders of record on August 7, 2019.

Licella Pulp Joint Venture

In April 2019, the BC Government, through its Innovative Clean Energy Fund, announced that it will provide funding over several years of $2.0 million, contingent on future spending. Funding of $0.5 million was received in April 2019. Of this amount, $0.3 million has been recognized as an offset to manufacturing and product costs for the three months ended June 30, 2019 with $0.2 million included in accounts payable and accrued liabilities at June 30, 2019.

Fibre United

In June 2019, the Company and UPM-Kymmene ("UPM") made a joint decision to end their strategic sales and marketing cooperation agreement, named Fibre United, to enable the development of each company's strategic directions. For CPPI, this means conducting its own direct marketing to its markets including China, Japan and Korea. The cooperation will remain in place until the end of 2019 and the Company anticipates that there will be a smooth transition to the new marketing arrangements.

OUTLOOK

Pulp Markets

Global softwood pulp markets are projected to remain challenging through the third quarter of 2019 given the current oversupply in global pulp markets and typically seasonally slower demand in the summer months. Reflecting the difficult market conditions, in combination with fibre supply constraints and higher fibre costs resulting from recent sawmill curtailments, the Company is taking phased summer curtailments at its Intercontinental and Northwood NBSK pulp mills in Prince George, British Columbia ("BC"), as well as at its BCTMP mill in Taylor, BC. In addition, the Company announced today that it will be extending the curtailment at its BCTMP mill by a further five weeks to September 9, 2019. Combined, the summer curtailments will reduce third quarter pulp production by an estimated 75,000 tonnes of NBSK pulp and 50,000 tonnes of BCTMP, respectively. A maintenance outage is also scheduled at the Prince George NBSK pulp mill in September 2019, with a projected 6,000 tonnes of reduced NBSK pulp production.

Towards the end of 2019 and into 2020, global inventory levels are forecast to move towards a more balanced range reflecting a gradual drawdown of inventory that will include the anticipated impact of the conversion to dissolving pulp of two large NBSK pulp mills outside of North America by the end of 2019, as well as production curtailments. Given the impacts of recently announced sawmill curtailments and closures in the BC Interior, fibre costs are projected to remain under pressure as a result of an increased proportion of higher-cost whole log chips, which are currently in tight supply. Bleached kraft paper demand is anticipated to decline slightly through the balance of the year.

Paper Markets

Bleached kraft paper demand is anticipated to decline slightly through the balance of the year.

A maintenance outage is currently planned at the Company's paper mill in September 2019 with a projected 4,000 tonnes of reduced paper production.

OUTSTANDING SHARES

At July 25, 2019 there were 65,250,759 common shares of the Company outstanding.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards ("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, pension and other employee future benefit plans and asset retirement obligations based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Company's financial condition.

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2019, the Company has adopted IFRS 16 *Leases* ("IFRS 16") which supersedes IAS 17 *Leases* ("IAS 17") 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 $3.3 million of ROU assets and $3.4 million of lease obligations, with the difference of $0.1 million recognized in retained earnings.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2019, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Sales and income (millions of Canadian dollars)								
Sales	**$ 319.5**	$ 304.0	$ 289.7	$ 328.5	$ 396.4	$ 359.7	$ 322.9	$ 284.9
Operating income before amortization	**$ 41.7**	$ 40.4	$ 36.1	$ 80.7	$ 105.1	$ 104.3	$ 85.6	$ 39.4
Operating income	**$ 18.4**	$ 18.1	$ 15.6	$ 60.5	$ 85.4	$ 85.1	$ 66.8	$ 21.1
Net income	**$ 10.6**	$ 10.8	$ 14.2	$ 42.9	$ 63.0	$ 64.3	$ 45.2	$ 12.6
Per common share (Canadian dollars)								
Net income – basic and diluted	**$ 0.16**	$ 0.17	$ 0.21	$ 0.66	$ 0.97	$ 0.99	$ 0.69	$ 0.19
Book value[11]	**$ 9.47**	$ 9.21	$ 9.14	$ 11.22	$ 10.62	$ 9.72	$ 8.76	$ 7.78
Dividends declared[12]	**$ 0.0625**	$ 0.0625	$ 0.0625	$ 2.3125	$ 0.0625	$ 0.0625	$ 0.0625	$ 0.0625
Common Share Repurchases								
Share volume repurchased (000 shares)	**-**	-	-	-	-	-	8	568
Shares repurchased (millions of Canadian dollars)	**$ -**	$ -	$ -	$ -	$ -	$ -	$ 0.1	$ 7.2
Statistics								
Pulp shipments (000 mt)	**288.1**	258.8	230.7	262.4	328.6	310.0	299.7	303.3
Paper shipments (000 mt)	**33.3**	32.7	32.0	33.6	32.6	32.0	35.8	34.0
Average exchange rate – US$/Cdn$	**$ 0.748**	$ 0.752	$ 0.758	$ 0.765	$ 0.774	$ 0.791	$ 0.786	$ 0.798
Average NBSK pulp list price delivered to China (US$)	**$ 653**	$ 710	$ 805	$ 887	$ 910	$ 910	$ 863	$ 670

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

[11] 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.

[12] Dividends declared relating to Q3 2018, and payable in Q4 2018, include a quarterly dividend of $0.0625 per share and a special dividend of $2.25 per share.

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

After-tax impact (millions of Canadian dollars, except for per share amounts)	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Net income, as reported	**$ 10.6**	$ 10.8	$ 14.2	$ 42.9	$ 63.0	$ 64.3	$ 45.2	$ 12.6
Change in substantively enacted tax legislation	**$ -**	$ -	$ -	$ -	$ -	$ -	$ 2.8	$ -
Net impact of above items	**$ -**	$ -	$ -	$ -	$ -	$ -	$ 2.8	$ -
Adjusted net income	**$ 10.6**	$ 10.8	$ 14.2	$ 42.9	$ 63.0	$ 64.3	$ 48.0	$ 12.6
Net income per share (EPS), as reported	**$ 0.16**	$ 0.17	$ 0.21	$ 0.66	$ 0.97	$ 0.99	$ 0.69	$ 0.19
Net impact of above items per share	**$ -**	$ -	$ -	$ -	$ -	$ -	$ 0.04	$ -
Adjusted net income per share	**$ 0.16**	$ 0.17	$ 0.21	$ 0.66	$ 0.97	$ 0.99	$ 0.73	$ 0.19

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at June 30, 2019**		As at December 31, 2018
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**-**	$	6.9
Accounts receivable - Trade		**115.2**		107.6
- Other		**8.6**		11.4
Income taxes receivable		**9.1**		5.4
Inventories (Note 2)		**209.8**		207.1
Prepaid expenses and other		**11.1**		11.9
Total current assets		**353.8**		350.3
Property, plant and equipment and intangible assets		**576.6**		578.2
Right-of-use assets (Note 3(a))		**2.8**		-
Other long-term assets		**3.7**		3.5
Total assets	**$**	**936.9**	$	932.0
LIABILITIES				
Current liabilities				
Cheques issued in excess of cash on hand	**$**	**0.4**	$	-
Accounts payable and accrued liabilities		**161.8**		182.0
Current portion of lease obligations (Note 3(b))		**1.3**		-
Total current liabilities		**163.5**		182.0
Lease obligations (Note 3(b))		**2.0**		-
Retirement benefit obligations (Note 5)		**69.8**		80.0
Other long-term provisions		**6.7**		6.6
Deferred income taxes, net		**77.1**		66.8
Total liabilities	**$**	**319.1**	$	335.4
EQUITY				
Share capital	**$**	**480.9**	$	480.9
Retained earnings		**136.9**		115.7
Total equity	**$**	**617.8**	$	596.6
Total liabilities and equity	**$**	**936.9**	$	932.0

Subsequent Events (Note 13)

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

APPROVED BY THE BOARD

S.E. Bracken-Horrocks

Director, S.E. Bracken-Horrocks

Director, C.A.Pinette

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended June 30, 2019	3 months ended June 30, 2018	6 months ended June 30, 2019	6 months ended June 30, 2018
Sales	**$ 319.5**	$ 396.4	**$ 623.5**	$ 756.1
Costs and expenses				
Manufacturing and product costs	**229.3**	243.9	**449.0**	452.7
Freight and other distribution costs	**41.3**	40.0	**77.3**	78.1
Amortization	**23.3**	19.7	**45.6**	38.9
Selling and administration costs	**7.2**	7.4	**15.1**	15.9
	301.1	311.0	**587.0**	585.6
Operating income	**18.4**	85.4	**36.5**	170.5
Finance expense, net	**(1.9)**	(1.3)	**(3.4)**	(2.5)
Other income (expense), net	**(1.8)**	2.2	**(3.7)**	6.0
Net income before income taxes	**14.7**	86.3	**29.4**	174.0
Income tax expense (Note 6)	**(4.1)**	(23.3)	**(8.0)**	(46.7)
Net income	**$ 10.6**	$ 63.0	**$ 21.4**	$ 127.3
Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 7)	**$ 0.16**	$ 0.97	**$ 0.33**	$ 1.95

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

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

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2019**	3 months ended June 30, 2018	6 months ended June 30, **2019**	6 months ended June 30, 2018
Net income	**$ 10.6**	$ 63.0	**$ 21.4**	$ 127.3
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (Note 5)	**14.5**	0.1	**11.1**	3.4
Income tax expense on defined benefit plan actuarial gains (Note 6)	**(3.9)**	-	**(3.0)**	(0.9)
Other comprehensive income, net of tax	**10.6**	0.1	**8.1**	2.5
Total comprehensive income	**$ 21.2**	$ 63.1	**$ 29.5**	$ 129.8

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2019**	3 months ended June 30, 2018	6 months ended June 30, **2019**	6 months ended June 30, 2018
Share capital				
Balance at beginning of period	**$ 480.9**	$ 480.9	**$ 480.9**	$ 480.9
Balance at end of period	**$ 480.9**	$ 480.9	**$ 480.9**	$ 480.9
Retained earnings				
Balance at beginning of period	**$ 119.8**	$ 153.1	**$ 115.7**	$ 90.5
Net income	**10.6**	63.0	**21.4**	127.3
Defined benefit plan actuarial gains, net of tax	**10.6**	0.1	**8.1**	2.5
Dividends declared	**(4.1)**	(4.1)	**(8.2)**	(8.2)
Impact of change in accounting policy (Notes 1 and 3)	**-**	-	**(0.1)**	-
Balance at end of period	**$ 136.9**	$ 212.1	**$ 136.9**	$ 212.1
Total equity	**$ 617.8**	$ 693.0	**$ 617.8**	$ 693.0

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended June 30, 2019	3 months ended June 30, 2018	6 months ended June 30, 2019	6 months ended June 30, 2018
Cash generated from (used in):				
Operating activities				
Net income	**$ 10.6**	$ 63.0	**$ 21.4**	$ 127.3
Items not affecting cash:				
Amortization	**23.3**	19.7	**45.6**	38.9
Income tax expense (Note 6)	**4.1**	23.3	**8.0**	46.7
Employee future benefits expense	**0.9**	1.1	**1.9**	2.2
Finance expense, net	**1.9**	1.3	**3.4**	2.5
Other, net	**(0.1)**	(1.3)	**0.2**	(0.4)
Defined benefit plan contributions, net	**(1.4)**	(1.7)	**(2.5)**	(3.4)
Income taxes received (paid), net	**(0.4)**	0.2	**(4.4)**	(18.9)
	38.9	105.6	**73.6**	194.9
Net change in non-cash working capital (Note 8)	**13.4**	(7.7)	**(20.7)**	(29.9)
	52.3	97.9	**52.9**	165.0
Financing activities				
Payment of lease obligations (Note 3(b))	**(0.2)**	-	**(0.4)**	-
Repayment of operating loan	**(23.0)**	-	**-**	-
Finance expenses paid	**(1.0)**	(1.0)	**(1.7)**	(1.7)
Dividends paid	**(4.1)**	(4.1)	**(8.2)**	(8.2)
Share purchases	**-**	-	**-**	(0.1)
	(28.3)	(5.1)	**(10.3)**	(10.0)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(24.4)**	(24.8)	**(49.9)**	(44.6)
Other, net	**-**	0.5	**-**	0.8
	(24.4)	(24.3)	**(49.9)**	(43.8)
Increase (decrease) in cash and cash equivalents*	**(0.4)**	68.5	**(7.3)**	111.2
Cash and cash equivalents at beginning of period*	**-**	119.4	**6.9**	76.7
Cash and cash equivalents at end of period*	**$ (0.4)**	$ 187.9	**$ (0.4)**	$ 187.9

*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 Standards ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Pulp Products Inc. ("CPPI") and its subsidiary entities, hereinafter referred to as "CPPI" or "the Company." At June 30, 2019 and July 25, 2019, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI.

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 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 July 25, 2019.

Change in Accounting Policy

Effective January 1, 2019, the Company has adopted IFRS 16 *Leases* ("IFRS 16"), which supersedes IAS 17 *Leases* ("IAS 17") 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 3, 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 assets 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.

2. Inventories

(millions of Canadian dollars, unaudited)		**As at June 30, 2019**		As at December 31, 2018
Pulp	**$**	**101.3**	$	83.2
Paper		**27.6**		22.2
Wood chips and logs		**27.0**		48.3
Materials and supplies		**53.9**		53.4
	$	**209.8**	$	207.1

The above inventory balances are stated at the lower of cost and net realizable value. Inventory write-downs for the three months ended June 30, 2019 totaled $13.4 million (six months ended June 30, 2019 – $13.7 million), reflecting write-downs to finished pulp and raw material inventories.

3. 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 $3.3 million of ROU assets and $3.4 million of lease obligations, with the difference of $0.1 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 at January 1, 2019.

(millions of Canadian dollars, unaudited)		
Lease commitments at December 31, 2018	$	1.7
Recognition exemption for short-term and low-value leases		(0.1)
Discounted using the incremental borrowing rate at January 1, 2019		(0.2)
Other transitional adjustments		2.0
Lease obligations recognized at January 1, 2019	$	3.4

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 incremental borrowing rate applied at January 1, 2019 was 4.2%.

(a) Right-of-Use Assets

(millions of Canadian dollars, unaudited)	Land	Machinery and equipment	Other facilities and equipment	Total
Cost				
Balance at January 1, 2019	$ 0.1	$ 5.5	$ 1.4	$ 7.0
Additions	-	0.1	0.1	0.2
Balance at June 30, 2019	$ 0.1	$ 5.6	$ 1.5	$ 7.2
Amortization				
Balance at January 1, 2019	$ -	$ (2.7)	$ (1.0)	$ (3.7)
Amortization	-	(0.5)	(0.2)	(0.7)
Balance at June 30, 2019	$ -	$ (3.2)	$ (1.2)	$ (4.4)
Carrying Amounts				
At January 1, 2019	$ 0.1	$ 2.8	$ 0.4	$ 3.3
At June 30, 2019	**$ 0.1**	**$ 2.4**	**$ 0.3**	**$ 2.8**

Amortization expense on right-of-use assets for the three and six months ended June 30, 2019, was $0.5 million and $0.7 million, respectively.

(b) Lease Obligations

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

(millions of Canadian dollars, unaudited)	**As at June 30, 2019**
Within one year	**$ 1.2**
Between one and five years	**2.3**
Beyond five years	**0.1**
Total undiscounted lease obligations	**$ 3.6**

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

(millions of Canadian dollars, unaudited)	**As at June 30, 2019**
Current	**$ 1.3**
Non-Current	**2.0**
Total discounted lease obligations	**$ 3.3**

Interest expense on lease obligations for the three months ended June 30, 2019 was nominal. For the six months ended June 30, 2019, interest expense of $0.1 million was recognized. Interest expense on lease obligations is included in finance expense.

Operating lease expense relating to short-term and low-value leases not included in the measurement of lease obligations for the three and six months ended June 30, 2019 was $0.1 million and $0.4 million, respectively.

For the three months ended June 30, 2019, total cash outflows for leases was $0.3 million, including $0.1 million for short-term and low-value leases. For the six months ended June 30, 2019, total cash outflows for leases was $0.8 million, including $0.4 million for short-term and low-value leases during the six months ended June 30, 2019.

4. Operating Loan

(millions of Canadian dollars, unaudited)	**As at June 30, 2019**	As at December 31, 2018
Operating loan facility	**$ 110.0**	$ 110.0
Letters of credit	**(13.0)**	(11.1)
Total available operating loan facility	**$ 97.0**	$ 98.9

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization, and is based on the lenders' Canadian prime rate, bankers' acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin.

The facility has certain financial covenants including a covenant based on maximum debt to total capitalization of the Company. At June 30, 2019, the Company was fully in compliance with all covenants relating to its operating loan.

5. Employee Future Benefits

Medical Services Plan Changes

On May 15, 2019, *Bill 20 – Medicare Protection Amendment Act, 2019* ("Bill 20"), received Royal Assent. Bill 20 eliminates Medical Services Plan ("MSP") premiums effective January 1, 2020. This change was recognized in actuarial financial assumptions in the second quarter of 2019 and resulted in an $18.9 million pre-tax reduction of the non-pension post-retirement benefit obligation and a corresponding gain recognized through other comprehensive income. The 50% reduction in MSP, when combined with the initial 50% reduction recognized in the fourth quarter of 2017, has resulted in a gain of $47.4 million reflected as a reduction in the Company's non-pension post-retirement benefit obligation.

Significant assumptions

For the three months ended June 30, 2019, defined benefit plan actuarial gains of $14.5 million (before tax) were recognized in other comprehensive income reflecting the aforementioned elimination of MSP premiums and, to a lesser extent, a higher than anticipated return on plan assets, offset in part by a lower discount rate used to value the net defined benefit obligations. For the six months ended June 30, 2019, defined benefit plan actuarial gains of $11.1 million (before tax) were recognized in other comprehensive income. For the three and six months ended June 30, 2018, the Company recognized actuarial gains in other comprehensive income of $0.1 million and $3.4 million (before tax), respectively.

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

	Defined Benefit Pension Plans	**Other Benefit Plans**
June 30, 2019	**3.0%**	**3.0%**
March 31, 2019	3.3%	3.3%
December 31, 2018	3.6%	3.6%
June 30, 2018	3.6%	3.6%
March 31, 2018	3.6%	3.6%
December 31, 2017	3.4%	3.4%

6. Income Taxes

	3 months ended June 30,				6 months ended June 30,			
(millions of Canadian dollars, unaudited)		**2019**		2018		**2019**		2018
Current	**$**	**0.8**	$	(23.1)	**$**	**(0.7)**	$	(48.7)
Deferred		**(4.9)**		(0.2)		**(7.3)**		2.0
Income tax expense	**$**	**(4.1)**	$	(23.3)	**$**	**(8.0)**	$	(46.7)

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

	3 months ended June 30,				6 months ended June 30,			
(millions of Canadian dollars, unaudited)		**2019**		2018		**2019**		2018
Income tax expense at statutory rate – 27% (2018 – 27%)	**$**	**(3.8)**	$	(23.3)	**$**	**(7.9)**	$	(47.0)
Add:								
Entities with different income tax rates and other tax adjustments		**(0.3)**		-		**(0.1)**		0.3
Income tax expense	**$**	**(4.1)**	$	(23.3)	**$**	**(8.0)**	$	(46.7)

In addition, a tax expense of $3.9 million related to actuarial gains on the Company's defined benefit plans was recorded in other comprehensive income for the three months ended June 30, 2019 (three months ended June 30, 2018 - nil). For the six months ended June 30, 2019, a tax expense of $3.0 million related to actuarial gains on the Company's defined benefit plans was recorded in other comprehensive income (six months ended June 30, 2018 – $0.9 million).

7. Earnings per Share and Normal Course Issuer Bid

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

	3 months ended June 30,		6 months ended June 30,	
	2019	2018	**2019**	2018
Weighted average number of common shares	**65,250,759**	65,250,759	**65,250,759**	65,250,767

On March 4, 2019, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,262,537 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.

As at June 30, 2019 and July 25, 2019, there were 65,250,759 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%.

8. Net Change in Non-Cash Working Capital

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2019**	2018	**2019**	2018
Accounts receivable	**$ 2.4**	$ (29.2)	**$ (8.5)**	$ (50.4)
Inventories	**3.2**	10.2	**(2.7)**	5.6
Prepaid expenses and other	**9.4**	2.5	**3.0**	(0.2)
Accounts payable and accrued liabilities	**(1.6)**	8.8	**(12.5)**	15.1
Net decrease (increase) in non-cash working capital	**$ 13.4**	$ (7.7)	**$ (20.7)**	$ (29.9)

9. Segment Information

The Company has two reportable segments, pulp and paper, which operate as separate business units and represent separate product lines. Sales between the pulp and paper segments are accounted for at prices that approximate fair value. These include sales of slush pulp from the pulp segment to the paper segment. Information regarding the operations of each reportable segment is included in the following table:

(millions of Canadian dollars, unaudited)	Pulp	Paper	Unallocated	Elimination Adjustment	Consolidated
3 months ended June 30, 2019					
Sales from contracts with customers	**$ 270.9**	**$ 48.6**	**$ -**	**$ -**	**$ 319.5**
Sales to other segments	**27.3**	**-**	**-**	**(27.3)**	**-**
Operating income (loss)	**12.9**	**8.1**	**(2.6)**	**-**	**18.4**
Amortization	**22.4**	**0.9**	**-**	**-**	**23.3**
Capital expenditures[1]	**22.4**	**1.6**	**0.4**	**-**	**24.4**
3 months ended June 30, 2018					
Sales from contracts with customers	$ 351.5	$ 44.7	$ 0.2	$ -	$ 396.4
Sales to other segments	27.5	-	-	(27.5)	-
Operating income (loss)	86.6	1.5	(2.7)	-	85.4
Amortization	18.6	1.1	-	-	19.7
Capital expenditures[1]	23.2	1.6	-	-	24.8

(millions of Canadian dollars, unaudited)	Pulp	Paper	Unallocated	Elimination Adjustment	Consolidated
6 months ended June 30, 2019					
Sales from contracts with customers	**$ 526.0**	**$ 97.1**	**$ 0.4**	**$ -**	**$ 623.5**
Sales to other segments	**55.6**	**-**	**-**	**(55.6)**	**-**
Operating income (loss)	**28.4**	**14.0**	**(5.9)**	**-**	**36.5**
Amortization	**43.8**	**1.8**	**-**	**-**	**45.6**
Capital expenditures[1]	**46.4**	**2.7**	**0.8**	**-**	**49.9**
Identifiable assets	**853.8**	**69.7**	**13.4**	**-**	**936.9**
6 months ended June 30, 2018					
Sales from contracts with customers	$ 669.0	$ 86.7	$ 0.4	$ -	$ 756.1
Sales to other segments	56.4	-	-	(56.4)	-
Operating income (loss)	173.0	4.4	(6.9)	-	170.5
Amortization	36.7	2.2	-	-	38.9
Capital expenditures[1]	41.7	2.9	-	-	44.6
Identifiable assets	803.4	58.2	198.8	-	1,060.4

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

Geographic information

CPPI's products are marketed worldwide, with sales made to customers in a number of different countries. The following table presents revenue based on geographical locations of CPPI's customers:

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2019**	2018	**2019**	2018
Sales by location of customer				
Canada	**$ 20.4**	$ 18.1	**$ 40.0**	$ 38.2
Asia	**181.2**	261.2	**342.7**	497.4
United States	**84.7**	77.2	**172.7**	151.9
Europe	**14.6**	16.0	**29.1**	29.6
Other	**18.6**	23.9	**39.0**	39.0
	$ 319.5	$ 396.4	**$ 623.5**	$ 756.1

10. Related Party Transactions

For the six months ended June 30, 2019, the Company depended on Canfor to provide approximately 69% (six months ended June 30, 2018 - 63%) of its fibre supply as well as certain key business and administrative services. As a result of these relationships the Company considers its operations to be dependent on its ongoing relationship with Canfor. The transactions with Canfor are consistent with the transactions described in the December 31, 2018 audited consolidated financial statements of CPPI and are based on agreed upon amounts between the parties.

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

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2019**	2018	**2019**	2018
Transactions				
Purchase of wood chips and other	**$ 62.7**	$ 64.0	**$ 132.8**	$ 117.1

(millions of Canadian dollars, unaudited)	**As at June 30, 2019**	As at December 31, 2018
Balance Sheet		
Included in accounts payable and accrued liabilities	**$ 22.1**	$ 31.6

11. Licella Pulp Joint Venture

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

Under IFRS 11, *Joint Arrangements*, the joint venture is classified as a joint operation and CPPI recognizes its assets, liabilities and transactions, including its share of those incurred jointly, in its financial statements. For the three months ended June 30, 2019, the Company's share of the joint venture's expenses was $1.5 million (three months ended June 30, 2018 - $0.5 million), which have been recognized in manufacturing and product costs. For the six months ended June 30, 2019, the Company's share of the joint venture's expenses was $2.6 million (six months ended June 30, 2018 - $1.0 million). The Company is required to contribute the first $20.0 million of any funding requirements, including cash and non-cash contributions, to the joint venture, of which $6.5 million has been contributed since commencement of the joint venture to June 30, 2019.

In March 2017, the Canadian Federal Government through its Sustainable Development Technology Canada program announced the funding over several years of approximately $13.2 million, contingent on future spending. Advance funding of $1.9 million was received in April 2018 for the period from October 1, 2017 through to the time at which the terms of funding are met. Of this amount, $0.3 million has been recognized as an offset to manufacturing and product costs for the three months ended June 30, 2019. For the six months ended June 30, 2019, an offset of $0.6 million has been recognized with $0.6 million included in accounts payable and accrued liabilities at June 30, 2019.

In April 2019, the BC Government, through its Innovative Clean Energy Fund, announced that it will provide funding over several years of $2.0 million, contingent on future spending. Funding of $0.5 million was received in April 2019. Of this amount, $0.3 million has been recognized as an offset to manufacturing and product costs for the three months ended June 30, 2019 with $0.2 million included in accounts payable and accrued liabilities at June 30, 2019.

12. Contingencies

In the ordinary course of its business activities, the Company may be subject to, or enter into, legal actions and claims with customers, unions, suppliers or others. During the six months ended June 30, 2019, the Company settled an outstanding claim with one of its suppliers and recognized a recovery of $4.5 million in manufacturing and product costs, offsetting previously incurred legal costs of $1.4 million which were expensed in the period incurred.

13. Subsequent Events

On July 25, 2019 the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on August 14, 2019, to the shareholders of record on August 7, 2019.

Also on July 25, 2019, the Company announced that it will be extending the curtailment at its Bleached Chemi-Thermo Mechanical Pulp mill by five weeks to September 9, 2019.