2019

QUARTER TWO

INTERIM REPORT

FOR THE THREE MONTHS ENDED JUNE 30, 2019

CANFOR CORPORATION

To Our Shareholders

Canfor Corporation today reported its second quarter of 2019 results:

Overview

- Second quarter of 2019 reported operating loss of $50 million
- Operating loss of $5 million after adjusting for duties, restructuring costs and reversal of inventory provision
- Adjusted shareholder net loss of $12 million, or $0.10 per share
- Completed first phase purchase of 49% of Elliott Sawmilling Co., LLC ("Elliott")

Financial Results

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

(millions of Canadian dollars, except per share amounts)	**Q2 2019**	Q1 2019	**YTD 2019**	Q2 2018	YTD 2018
Sales	**$ 1,313.0**	$ 1,148.7	**$ 2,461.7**	$ 1,459.5	$ 2,693.0
Reported operating income before amortization	**$ 43.1**	$ 16.6	**$ 59.7**	$ 349.7	$ 618.3
Reported operating income (loss)	**$ (49.7)**	$ (69.9)	**$ (119.6)**	$ 282.1	$ 485.9
Adjusted operating income before amortization[1]	**$ 88.2**	$ 91.5	**$ 179.7**	$ 401.4	$ 704.9
Adjusted operating income (loss)[1]	**$ (4.6)**	$ 5.0	**$ 0.4**	$ 333.8	$ 572.5
Net income (loss)[2]	**$ (48.6)**	$ (89.5)	**$ (138.1)**	$ 169.8	$ 282.0
Net income (loss) per share, basic and diluted[2]	**$ (0.39)**	$ (0.71)	**$ (1.10)**	$ 1.32	$ 2.19
Adjusted net income (loss)[2, 3]	**$ (11.8)**	$ (36.8)	**$ (48.6)**	$ 214.1	$ 359.5
Adjusted net income (loss) per share, basic and diluted[2, 3]	**$ (0.10)**	$ (0.29)	**$ (0.39)**	$ 1.66	$ 2.79

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 expense ($45.2 million in Q2 2019, $36.3 million in Q1 2019, $51.7 million in Q2 2018), inventory write-downs and recoveries ($11.6 million net recovery in Q2 2019, expense of $38.6 million in Q1 2019), and restructuring costs of $11.5 million related to the permanent closure of the Vavenby sawmill announced in Q2 2019.

[2] Attributable to equity shareholders of the Company.

[3] Adjusted for after-tax impact of certain one-time items, including the aforementioned countervailing and anti-dumping duties expense and restructuring costs, as well as foreign exchange (gain) loss on long-term debt and duties recoverable, and (gain) loss on derivative financial instruments.

For the second quarter of 2019, the Company reported an operating loss of $49.7 million, an improvement of $20.2 million from the operating loss of $69.9 million reported for the first quarter of 2019. The improvement reflected higher lumber segment earnings that included a full quarter of the Vida Group of Sweden's ("Vida" or "European SPF lumber operations") results following completion of the acquisition in the first quarter of 2019. Pulp and paper segment earnings were similar to the previous quarter after taking account of inventory write-downs.

Reported results for the second quarter of 2019 included a net duty expense of $45.2 million, at a combined countervailing duty ("CVD") and anti-dumping duty ("ADD") accrual rate of 26.24%, compared to $36.3 million reported in the first quarter of 2019 at the same cumulative combined rate. Reported results in the second quarter of 2019 also included a $25.0 million recovery in the lumber and log inventory write-down provision, partly offset by a $13.4 million finished pulp and raw material inventory write-down. Reflecting the decision to permanently close the Company's Vavenby sawmill in British Columbia ("BC"), reported results in the second quarter included estimated restructuring costs of $11.5 million. After adjusting for the aforementioned items, the Company's operating loss was $4.6 million for the second quarter of 2019, down $9.6 million from similarly adjusted operating income in the first quarter of 2019, with weaker lumber segment results more than offsetting improved results for the pulp and paper segment.

Adjusted lumber segment operating income included a full quarter of the Company's solid European Spruce/Pine/Fir ("SPF") operations' results, which partly offset the continued declines in Western Spruce/Pine/Fir ("Western SPF") and Southern Yellow Pine ("SYP") benchmark lumber prices through much of the quarter, driven both by tepid demand and market oversupply. As a result of the lumber market weakness, as well as log supply constraints and growing cost pressure in BC, the Company took production curtailments of 150 million board feet in the current quarter (in addition to the 95 million board feet in the first quarter of 2019), and also announced the permanent closure of its Vavenby sawmill and sale of the associated forest tenure. The sawmill will close in July and the sale is currently anticipated to close in the third quarter of 2019, upon completion of customary closing conditions, including approval from the Minister of Forests. The Vavenby sawmill had an annual production capacity of 250 million board feet.

Subsequent to quarter-end, the Company announced further capacity reductions at two of its BC sawmills. The Mackenzie sawmill has been indefinitely curtailed effective July 18, 2019. The Isle Pierre sawmill will be permanently reduced from two shifts to one shift effective September 20, 2019, to enable the mill to better align its production capacity with sustainable fibre supply in the region. Combined, these curtailments will further reduce Canfor's annual production output by approximately 400 million board feet.

The Company successfully completed the first phase purchase of 49% of Elliott at the end of May, with the remaining 51% being acquired in one year. The acquisition adds 210 million board feet of high-value SYP lumber production capacity.

Results in the pulp and paper segment reflected a solid operating performance at Canfor Pulp Product Inc.'s ("CPPI") 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.

North American home construction and repair and remodeling activity was muted in the second quarter of 2019. US housing starts, on a seasonally adjusted basis, averaged 1,263,000 units, up 4% from the previous quarter and slightly higher than the second quarter of 2018; multi-family starts were up 19% from the previous quarter, while single-family starts, which consume a higher proportion of lumber, were down 2% compared to the same period. The slower than anticipated recovery in US housing starts in part reflected record year-to-date precipitation levels and severe flooding across the US South early in the quarter, which delayed the start of the typically busy spring construction season. Demand was also tempered while the market continued to absorb surplus inventory. In Canada, housing starts averaged 224,000 units on a seasonally adjusted basis, up 20% from the previous quarter as multi-family starts surged in several major cities. Offshore lumber demand was down, particularly in China and Japan, due primarily to a slow unwind of high inventory levels in the supply chain. European lumber demand remained solid through most of the current quarter, with weakness in other global markets having a marginal impact on the region.

The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was down US$39 per Mfbm, or 10%, from the previous quarter, at US$333 per Mfbm and similar declines were also seen across most Western SPF wider-width dimensions. The Company's Western SPF lumber unit sales realizations reflected more modest declines quarter-over-quarter reflecting its higher-value sales mix.

SYP lumber unit sales realizations were moderately lower than the prior quarter as a US$23 per Mfbm, or 6%, decrease in the SYP East 2x4 #2 price to US$393 per Mfbm, was partially offset by more stable prices for wider-width dimension products.

The average European indicative SPF lumber benchmark price (an internally generated benchmark based on delivered price to the largest continental market), at 4,003 Swedish Krona ("SEK") per Mfbm, was down SEK 108 per Mfbm, or 3%, from the previous quarter, principally reflecting the relatively stable demand in the region, particularly when compared to North American and other global markets, combined with the higher-value products produced by the Company's European SPF operations. The Company's European SPF lumber unit sales realizations for the second quarter of 2019 were down slightly when compared to the previous quarter reflecting a decline in the European benchmark pricing and a 2% strengthening of the Canadian dollar against the SEK.

Total lumber shipments, at 1.47 billion board feet, were 24% higher than the previous quarter reflecting higher Western SPF shipments, despite BC production curtailments, following the alleviation of weather-related transportation challenges in the prior quarter, combined with a full quarter of European SPF shipments.

Total lumber production, at 1.38 billion board feet, was 11% above the prior quarter, largely reflecting the benefit of one full quarter of European SPF lumber production, combined with fewer North American statutory holidays in the current quarter, which more than offset the impact of the aforementioned BC production curtailments, which reduced Western SPF lumber production by 17%, and, to a lesser extent, capital related downtime in the US South. European SPF lumber productivity was steady quarter-over-quarter, with solid operating rates at its operations.

Lumber unit manufacturing and product costs were lower than the previous quarter largely as a result of higher weather-related operating and energy costs in the comparative period, and, to a lesser extent, lower market-related log costs in both Western Canada and the US South in the current quarter. In Europe, lumber unit manufacturing and product costs were broadly in line with the previous quarter.

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, CPPI's average NBSK pulp unit sales realizations showed a more moderate decrease compared to the previous quarter, primarily reflecting CPPI'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, CPPI 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.

Looking ahead to the second half of 2019, demand in the US housing sector is anticipated to remain steady, reflecting a gradual pick-up in construction activity into the fall, combined with solid demand in the repair and remodeling sector. Market-based stumpage in BC increased materially on July 1, 2019. Given the high cost of fibre and ongoing weak lumber prices, additional curtailments and mill closures in this region are expected. As a result, lumber prices are forecast to gradually improve, as supply becomes more in balance with demand. Lumber prices in Asia are also expected to improve as inventory levels throughout the supply chain stabilize. Through the balance of 2019, European SPF lumber prices are anticipated to experience some pricing pressure driven principally by weakness experienced in other regions in the second quarter, mitigated in part by a moderate decline in log costs. The Company's European lumber business will take its traditional seasonal production downtime in the third quarter of 2019, reducing European SPF lumber production by approximately 70 million board feet.

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, CPPI is taking phased summer curtailments at its Intercontinental and Northwood NBSK pulp mills in Prince George, BC, as well as at its BCTMP mill in Taylor, BC. In addition, CPPI 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 CPPI'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 pulp 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 of two large NBSK pulp mills outside of North America to dissolving pulp 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 in tight supply. Bleached kraft paper demand is anticipated to decline slightly through the balance of the year.

Conrad A. Pinette
Chairman

Don B. Kayne
President and Chief Executive Officer

Canfor Corporation
Second 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 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 Canfor'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 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, Adjusted Operating Income (Loss) 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 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 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 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:					
Lumber[1]	**$ (60.6)**	$ (78.0)	**$ (138.6)**	$ 203.4	$ 329.3
Pulp and Paper	**$ 18.4**	$ 18.1	**$ 36.5**	$ 85.4	$ 170.5
Unallocated and Other	**$ (7.5)**	$ (10.0)	**$ (17.5)**	$ (6.7)	$ (13.9)
Total operating income (loss)	**$ (49.7)**	$ (69.9)	**$ (119.6)**	$ 282.1	$ 485.9
Add: Amortization[2]	**$ 92.8**	$ 86.5	**$ 179.3**	$ 67.6	$ 132.4
Total operating income before amortization	**$ 43.1**	$ 16.6	**$ 59.7**	$ 349.7	$ 618.3
Add (deduct):					
Working capital movements	**$ 141.3**	$ (163.0)	**$ (21.7)**	$ 61.9	$ (90.2)
Defined benefit plan contributions, net	**$ (6.0)**	$ (4.7)	**$ (10.7)**	$ (7.3)	$ (14.6)
Income taxes received (paid), net	**$ 8.2**	$ (9.6)	**$ (1.4)**	$ (24.3)	$ (71.1)
Adjustment to accrued duties[3]	**$ 7.9**	$ 3.1	**$ 11.0**	$ (10.1)	$ (23.0)
Other operating cash flows, net[4]	**$ 10.5**	$ 8.7	**$ 19.2**	$ -	$ 22.7
Cash from operating activities	**$ 205.0**	$ (148.9)	**$ 56.1**	$ 369.9	$ 442.1
Add (deduct):					
Capital additions, net	**$ (82.0)**	$ (74.7)	**$ (156.7)**	$ (87.6)	$ (144.0)
Finance expenses paid	**$ (14.4)**	$ (7.2)	**$ (21.6)**	$ (7.3)	$ (11.0)
Distributions paid to non-controlling interests	**$ (10.5)**	$ (5.0)	**$ (15.5)**	$ (2.0)	$ (3.8)
Repayment of long-term debt	**$ (0.2)**	$ (0.2)	**$ (0.4)**	$ (0.1)	$ (0.2)
Payment of lease obligations[5]	**$ (4.0)**	$ (3.3)	**$ (7.3)**	$ -	$ -
Consideration paid for acquisition of Vida, net of cash acquired	**$ -**	$ (562.6)	**$ (562.6)**	$ -	$ -
Operating loan facilities acquired from Vida, net of foreign exchange	**$ 0.5**	$ (17.8)	**$ (17.3)**	$ -	$ -
Consideration paid for first phase investment in Elliott[6]	**$ (60.5)**	$ -	**$ (60.5)**	$ -	$ -
Proceeds from long-term debt	**$ -**	$ 231.7	**$ 231.7**	$ -	$ -
Share purchases	**$ -**	$ -	**$ -**	$ -	$ (4.2)
Foreign exchange gain (loss) on cash and cash equivalents	**$ (1.2)**	$ 1.8	**$ 0.6**	$ 1.9	$ 3.3
Other, net[4]	**$ (7.7)**	$ (0.1)	**$ (7.8)**	$ 1.9	$ 2.4
Change in cash / operating loans	**$ 25.0**	$ (586.3)	**$ (561.3)**	$ 276.7	$ 284.6
ROIC – Consolidated period-to-date[7]	**(1.7)%**	(2.8)%	**(4.5)%**	9.5%	16.2%
Average exchange rate (US$ per C$1.00)[8]	**$ 0.748**	$ 0.752	**$ 0.750**	$ 0.774	$ 0.782
Average exchange rate (SEK per C$1.00)[8]	**7.059**	6.905	**6.981**	6.717	6.562

2019 results include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.
[1] Q2 2019 results include three months of our European SPF lumber operations results. Q1 2019 includes one month of results.
[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] Consideration paid includes the first phase investment in Elliott, consisting of a cash payment of $52.0 million (US$38.5 million) and $8.5 million (US$6.2 million) advanced under a term loan facility. An additional $21.1 million (US$15.6 million) has been recognized as an "Other Current Liability" on the Company's consolidated balance sheet as at June 30, 2019.
[7] 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.
[8] 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)	Q2 2019	Q1 2019	YTD 2019	Q2 2018	YTD 2018
Shareholder net income (loss), as reported	**$ (48.6)**	$ (89.5)	**$ (138.1)**	$ 169.8	$ 282.0
Foreign exchange (gain) loss on long-term debt and duties recoverable, net	**$ (2.9)**	$ 0.8	**$ (2.1)**	$ 1.0	$ 2.9
Countervailing and anti-dumping duty deposit expense, net	**$ 33.0**	$ 26.5	**$ 59.5**	$ 37.7	$ 63.2
(Gain) loss on derivative financial instruments	**$ (1.7)**	$ 25.4	**$ 23.7**	$ 5.6	$ 11.4
Restructuring costs	**$ 8.4**	$ -	**$ 8.4**	$ -	$ -
Net impact of above items	**$ 36.8**	$ 52.7	**$ 89.5**	$ 44.3	$ 77.5
Adjusted shareholder net income (loss)	**$ (11.8)**	$ (36.8)	**$ (48.6)**	$ 214.1	$ 359.5
Shareholder net income (loss) per share (EPS), as reported	**$ (0.39)**	$ (0.71)	**$ (1.10)**	$ 1.32	$ 2.19
Net impact of above items per share	**$ 0.29**	$ 0.42	**$ 0.71**	$ 0.34	$ 0.60
Adjusted shareholder net income (loss) per share	**$ (0.10)**	$ (0.29)	**$ (0.39)**	$ 1.66	$ 2.79

For the second quarter of 2019, the Company reported an operating loss of $49.7 million, an improvement of $20.2 million from the operating loss of $69.9 million reported for the first quarter of 2019. The improvement reflected higher lumber segment earnings that included a full quarter of the Vida Group of Sweden's ("Vida" or "European SPF lumber operations") results following completion of the acquisition in the first quarter of 2019. Pulp and paper segment earnings were similar to the previous quarter after taking account of inventory write-downs.

Adjusted lumber segment operating income (as outlined in "Selected Financial Information and Statistics - Lumber) included a full quarter of the Company's solid European Spruce/Pine/Fir ("SPF") operations' results, which partly offset the continued declines in Western Spruce/Pine/Fir ("Western SPF") and Southern Yellow Pine ("SYP") benchmark lumber prices through much of the quarter, driven by tepid demand and market oversupply. As a result of the lumber market weakness, as well as log supply constraints and growing cost pressure in BC, the Company took production curtailments of 150 million board feet in the current quarter (in addition to the 95 million board feet in the first quarter of 2019), and also announced the permanent closure of its Vavenby sawmill and sale of the associated forest tenure. The sawmill will close in July and the sale is currently anticipated to close in the third quarter of 2019, upon completion of customary closing conditions, including approval from the Minister of Forests. The Vavenby sawmill had an annual production capacity of 250 million board feet.

The Company successfully completed the first phase purchase of 49% of Elliott Sawmilling Co., LLC ("Elliott") at the end of May, with the remaining 51% being acquired in one year. The acquisition adds 210 million board feet of high-value SYP lumber production capacity.

Results in the pulp and paper segment reflected a solid operating performance at Canfor Pulp Product Inc.'s ("CPPI") pulp and paper mills, which more than offset the effects pricing declines due to continued elevated global market pulp inventory levels and weaker demand, particularly in China and Europe.

The current quarter's reported operating results were down $331.8 million from operating income of $282.1 million reported for the second quarter of 2018, reflecting a $264.0 million decrease in lumber segment earnings and a $67.0 million decrease in earnings for the pulp and paper segment. Lower lumber segment earnings principally reflected significant declines in Western SPF and SYP benchmark lumber prices from historically high levels in the comparative period, lower shipment and production volumes due to market-driven curtailments at the Company's BC operations, and increased log costs in Western Canada, all of which more than offset the benefits of earnings from the Company's recently acquired European operations and a 3 cent, or 3%, weaker Canadian dollar in the current quarter. Pulp and paper segment results reflected 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 the weaker Canadian Dollar.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q2 2019	Q1 2019	YTD 2019	Q2 2018	YTD 2018
Sales[9]	**$ 993.5**	$ 844.7	**$ 1,838.2**	$ 1,063.2	$ 1,937.1
Operating income (loss) before amortization[9]	**$ 8.7**	$ (14.0)	**$ (5.3)**	$ 251.3	$ 422.8
Operating income (loss)[9]	**$ (60.6)**	$ (78.0)	**$ (138.6)**	$ 203.4	$ 329.3
Countervailing and anti-dumping duties, net[10]	**$ 45.2**	$ 36.3	**$ 81.5**	$ 51.7	$ 86.6
Inventory write-down (recovery)	**$ (25.0)**	$ 38.6	**$ 13.6**	$ -	$ -
Restructuring costs[11]	**$ 11.5**	$ -	**$ 11.5**	$ -	$ -
Adjusted operating income (loss)	**$ (28.9)**	$ (3.1)	**$ (32.0)**	$ 255.1	$ 415.9
Average Western SPF 2x4 #2&Btr lumber price in US$[12]	**$ 333**	$ 372	**$ 353**	$ 598	$ 556
Average Western SPF 2x4 #2&Btr lumber price in Cdn$	**$ 445**	$ 495	**$ 471**	$ 773	$ 711
Average SYP 2x4 #2 lumber price in US$[13]	**$ 393**	$ 416	**$ 405**	$ 589	$ 578
Average European indicative SPF lumber price in SEK[14]	**4,003**	4,111	**4,060**	4,145	3,971
Average European indicative SPF lumber price in Cdn$	**567**	595	**582**	617	605
U.S. housing starts (thousand units SAAR)[15]	**1,263**	1,213	**1,238**	1,260	1,290
Production – Western SPF lumber (MMfbm)[16]	**762.8**	796.4	**1,559.2**	947.7	1,836.4
Production – SYP lumber (MMfbm)[16]	**354.3**	364.5	**718.9**	367.2	718.6
Production – European SPF lumber (MMfbm)[16,18]	**266.9**	91.3	**358.2**	-	-
Shipments – Western SPF lumber (MMfbm)[17]	**846.6**	743.1	**1,589.7**	970.3	1,821.5
Shipments – SYP lumber (MMfbm)[17]	**349.9**	352.0	**701.9**	380.4	725.0
Shipments – European SPF lumber (MMfbm)[17,18]	**277.9**	95.1	**373.0**	-	-

2019 results include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.
[9] Q2 2019 includes sales of $236.5 million, operating income of $10.2 million and operating income before amortization of $25.9 million from European SPF lumber operations (Q1 2019 - sales of $87.6 million, operating income of $4.6 million and operating income before amortization of $15.6 million). If the acquisition of Vida had occurred on January 1, 2019, it is estimated that for the six months ended June 30, 2019, European SPF lumber sales would have been $482.3 million, with operating income of $27.9 million and operating income before amortization of $68.0 million.
[10] Adjusted for countervailing and anti-dumping duties expensed for accounting purposes.
[11] Adjusted for restructuring costs related to the permanent closure of the Vavenby sawmill announced in Q2 2019.
[12] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[13] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[14] Preliminary quarterly European indicative lumber price is an internally generated benchmark based on delivered price to the largest continental market.
[15] Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").
[16] Excluding production of trim blocks.
[17] Canfor or Vida produced lumber, including lumber purchased for remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.
[18] Q2 2019 includes three months of European SPF lumber shipments and production. Q1 2019 includes one month.

Markets

North American home construction and repair and remodeling activity was muted in the second quarter of 2019. US housing starts, on a seasonally adjusted basis, averaged 1,263,000 units, up 4% from the previous quarter and slightly higher than the second quarter of 2018; Multi-family starts were up 19% from the previous quarter, while single-family starts, which consume a higher proportion of lumber, were down 2% compared to the same period. The slower than anticipated recovery in US housing starts in part reflected record year-to-date precipitation levels and severe flooding across the US South early in the quarter, which delayed the start of the typically busy spring construction season. Demand was also tempered while the market continued to absorb surplus inventory. In Canada, housing starts averaged 224,000 units on a seasonally adjusted basis, up 20% from the previous quarter as multi-family starts surged in several major cities. Offshore lumber demand was down, particularly in China and Japan, due primarily to a slow unwind of high inventory levels in the supply chain. European lumber demand remained solid through most of the current quarter, with weakness in other global markets having a marginal impact on the region.

Sales

Sales revenues for the lumber segment for the second quarter of 2019 were $993.5 million, compared to $844.7 million in the previous quarter and $1,063.2 million for the second quarter of 2018. The 18% increase in sales revenue compared to the prior quarter was principally a result of a full quarter of European SPF lumber sales combined with higher Western SPF lumber shipments, which more than offset the impact of moderately lower Western SPF lumber unit sales realizations. Sales revenues decreased by 7% compared to the second quarter of 2018 as substantially lower Western SPF and SYP benchmark lumber prices and, to a lesser extent, lower shipments, offset the incremental benefit of European SPF lumber sales and the weaker Canadian dollar in the current quarter.

Total lumber shipments, at 1.47 billion board feet, were 24% higher than the previous quarter reflecting higher Western SPF shipments, despite BC production curtailments, following the alleviation of weather-related transportation challenges in the prior quarter, combined with a full quarter of European SPF shipments. Total lumber shipments were 9% higher than the second quarter of 2018, principally due to the benefit of European SPF lumber shipment volumes, which more than offset reduced shipment volumes associated with the aforementioned curtailments in the current quarter.

The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was down US$39 per Mfbm, or 10%, from the previous quarter, at US$333 per Mfbm and similar declines were also seen across most Western SPF wider-width dimensions. The Company's Western SPF lumber unit sales realizations reflected more modest declines quarter-over-quarter reflecting its higher-value sales mix.

SYP lumber unit sales realizations were moderately lower than the prior quarter as a US$23 per Mfbm, or 6%, decrease in the SYP East 2x4 #2 price to US$393 per Mfbm, was partially offset by more stable prices for wider-width dimension products.

The average European indicative SPF lumber benchmark price (an internally generated benchmark based on delivered price to the largest continental market), at 4,003 Swedish Krona ("SEK") per Mfbm, was down SEK 108 per Mfbm, or 3%, from the previous quarter, principally reflecting the relatively stable demand in the region, particularly when compared to North American and other global markets, combined with the higher-value products produced by the Company's European SPF operations. The Company's European SPF lumber unit sales realizations for the second quarter of 2019 were down slightly when compared to the previous quarter reflecting a decline in the European benchmark pricing and a 2% strengthening of the Canadian dollar against the SEK.

Compared to the second quarter of 2018, lumber unit sales realizations declined significantly, reflecting considerably lower US-dollar Western SPF and SYP benchmark prices and lower offshore unit sales realizations in the current quarter, which more than outweighed the benefit of the weaker Canadian dollar. The average North American Random Lengths Western SPF 2x4 #2&Btr price was down US$265 per Mfbm, or 44%, and the SYP East 2x4 #2 price was down US$196 per Mfbm, or 33%. European SPF lumber unit sales realizations were down slightly when compared to the second quarter of 2018, primarily due to a 142 SEK per Mfbm, or 3%, decline in the average European indicative SPF lumber benchmark price, reflecting a combination of steady demand and more balanced supply conditions in that region.

Other revenues for the lumber segment (which is primarily comprised of residual fibre, pulp log and pellets sales as well as the Company's European operations' other lumber-related revenues) increased in the current quarter when compared to both comparative periods, principally reflecting a full quarter of European other lumber-related revenues, and, to a lesser extent, timing of pellet shipments.

Operations

Total lumber production, at 1.38 billion board feet, was 11% above the prior quarter, largely reflecting the benefit of one full quarter of European SPF lumber production, combined with fewer North American statutory holidays in the current quarter, which more than offset the impact of the aforementioned BC production curtailments, which reduced Western SPF lumber production by 17%, and, to a lesser extent, capital related downtime in the US South. European SPF lumber productivity was steady quarter-over-quarter, with solid operating rates at its operations.

Total lumber production was moderately higher than the second quarter of 2018 reflecting a full quarter of production generated by our European SPF lumber operations, which more than offset the aforementioned curtailments.

Lumber unit manufacturing and product costs were lower than the previous quarter largely as a result of higher weather-related operating and energy costs in the comparative period, and, to a lesser extent, lower market-related log costs in both Western Canada and the US South in the current quarter. In Europe, lumber unit manufacturing and product costs were broadly in line with the previous quarter. Compared to the second quarter of 2018, unit manufacturing and product costs were up significantly, primarily due to curtailments in combination with higher fibre costs, driven by increased competition for purchased wood and higher market-based stumpage in BC.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[19]

(millions of Canadian dollars, unless otherwise noted)	**Q2 2019**	Q1 2019	**YTD 2019**	Q2 2018	YTD 2018
Sales	**$ 319.5**	$ 304.0	**$ 623.5**	$ 396.3	$ 755.9
Operating income before amortization[20]	**$ 41.7**	$ 40.4	**$ 82.1**	$ 105.1	$ 209.4
Operating income	**$ 18.4**	$ 18.1	**$ 36.5**	$ 85.4	$ 170.5
Inventory write-downs	**$ 13.4**	$ 0.3	**$ 13.7**	$ -	$ -
Adjusted operating income	**$ 31.8**	$ 18.4	**$ 50.2**	$ 85.4	$ 170.5
Average NBSK pulp price delivered to China – US$[21]	**$ 653**	$ 710	**$ 682**	$ 910	$ 910
Average NBSK pulp price delivered to China – Cdn$[21]	**$ 873**	$ 944	**$ 910**	$ 1,176	$ 1,164
Production – pulp (000 mt)	**299.9**	274.2	**574.1**	296.5	608.2
Production – paper (000 mt)	**36.0**	35.0	**71.0**	30.6	64.9
Shipments – pulp (000 mt)	**288.1**	258.8	**546.9**	328.6	638.6
Shipments – paper (000 mt)	**33.3**	32.7	**66.0**	32.6	64.6

2019 results include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.
[19] 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.
[20] Amortization includes amortization of certain capitalized major maintenance costs.
[21] Per tonne, NBSK pulp list price delivered to China (Resource Information Systems, Inc.).

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[22] (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%[23], 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.

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

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.

[22] 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").
[23] As reported PPPC statistics.

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 CPPI'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.

Compared to the second quarter of 2018, CPPI'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 of Northwood's new Turbo Generator Condensing turbine in operation.

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

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, CPPI 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 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 and Other Items

Selected Financial Information

(millions of Canadian dollars)	Q2 2019	Q1 2019	YTD 2019	Q2 2018	YTD 2018
Operating loss of Panels operations[24]	**$ (0.4)**	$ (0.5)	**$ (0.9)**	$ (0.3)	$ (0.9)
Corporate costs	**$ (7.1)**	$ (9.5)	**$ (16.6)**	$ (6.4)	$ (13.0)
Finance expense, net	**$ (14.6)**	$ (10.5)	**$ (25.1)**	$ (6.2)	$ (12.9)
Foreign exchange gain (loss) on long-term debt and duties recoverable, net	**$ 3.2**	$ (1.2)	**$ 2.0**	$ (1.2)	$ (3.4)
Gain (loss) on derivative financial instruments	**$ 2.6**	$ (28.4)	**$ (25.8)**	$ (7.6)	$ (15.6)
Other income (expense), net	**$ (1.0)**	$ 1.8	**$ 0.8**	$ 3.3	$ 8.6

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

[24] 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 $7.1 million for the second quarter of 2019, down $2.4 million from the first quarter of 2019 and broadly line with the second quarter of 2018. The decrease compared to the previous quarter primarily related to higher costs associated with the acquisition of Vida in the comparative period.

Net finance expense of $14.6 million for the second quarter of 2019 was up $4.1 million from the previous quarter and up $8.4 million from the second quarter of 2018, for the most party reflecting higher interest expense associated with the Company's increased debt levels resulting from the Vida acquisition in the first quarter of 2019 and the first phase of the Elliott acquisition in the second quarter of 2019.

In the second quarter of 2019, the Company recognized a foreign exchange gain on its US-dollar term debt held by Canadian entities, which more than offset 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 second quarter of 2019, the Company recorded a net gain of $2.6 million primarily related to its foreign exchange derivative instruments, in comparison to a net loss of $28.4 million in the previous quarter, primarily related to the settlement of the Company's Swedish Krona forward foreign exchange contracts. In the second quarter of 2018, the Company recorded a net loss of $7.6 million related to its derivative instruments.

Other expense, net, of $1.0 million in the second quarter of 2019 principally 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)	Q2 2019	Q1 2019	YTD 2019	Q2 2018	YTD 2018
Defined benefit actuarial gain (loss), net of tax	**$ 9.0**	$ (5.3)	**$ 3.7**	$ 1.5	$ 11.1
Foreign exchange translation differences for foreign operations, net of tax	**$ (25.4)**	$ (3.6)	**$ (29.0)**	$ 12.5	$ 27.6
Other comprehensive income (loss), net of tax	**$ (16.4)**	$ (8.9)	**$ (25.3)**	$ 14.0	$ 38.7

In the second quarter of 2019, the Company recorded an after-tax gain of $9.0 million related to changes in the valuation of the Company's employee future benefit 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 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 $95.7 million, or $0.76 per common share, reflected as a reduction in the Company's non-pension post-retirement benefit obligation.

In the first quarter of 2019, an after-tax loss of $5.3 million 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 an after-tax gain of $1.5 million was recorded in the second quarter of 2018, principally reflecting a return on plan assets greater than the discount rate.

In addition, the Company recorded a loss of $25.4 million in the second quarter of 2019 related to foreign exchange translation differences for foreign operations, resulting primarily from the strengthening of the Canadian dollar relative to the Swedish Krona in the current quarter. This compared to a loss of $3.6 million in the previous quarter and a gain of $12.5 million in the second 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)	**Q2 2019**	Q1 2019	**YTD 2019**	Q2 2018	YTD 2018
Cash generated from (used in)					
Operating activities	**$ 205.0**	$ (148.9)	**$ 56.1**	$ 369.9	$ 442.1
Financing activities	**$ (74.9)**	$ 603.4	**$ 528.5**	$ (9.4)	$ (19.3)
Investing activities	**$ (150.2)**	$ (637.4)	**$ (787.6)**	$ (85.7)	$ (141.5)
Increase (decrease) in cash and cash equivalents[25]	**$ (20.1)**	$ (182.9)	**$ (203.0)**	$ 274.8	$ 281.3
Ratio of current assets to current liabilities		1.5:1	**1.5:1**		2.6:1
Net debt (cash) to capitalization[26]		30.0%	**29.9%**		(7.9)%

2019 results include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.
[25] Increase (decrease) in cash and cash equivalents shown before foreign exchange translation on cash and cash equivalents.
[26] 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 generated $205.0 million of cash in the second quarter of 2019, compared to $148.9 million cash used in the previous quarter and cash generated of $369.9 million in the second quarter of 2018. The increase in operating cash flows from the previous quarter largely reflected a seasonal drawdown of log inventories during the spring break-up period in Western Canada, a reduction in lumber inventories and accounts receivable, partly attributable to curtailments towards the end of the current quarter, and to a lesser extent, higher cash earnings and the receipt of income tax refunds. Compared to the second quarter of 2018, the decrease in operating cash flows mostly reflected lower cash earnings, partially offset by the aforementioned favourable movements in non-cash working capital in the current period.

Financing Activities

Cash used in financing activities was $74.9 million in the current quarter, compared to cash generated of $603.4 million in the previous quarter and cash used of $9.4 million in the second quarter of 2018. In the first quarter of 2019, financing activities were principally related to draw downs of the Company's operating loan and long-term debt facilities to finance the Vida acquisition and to service working capital requirements. In the second quarter of 2019, finance activities mainly reflected increased interest expense. Cash used for financing activities in the second quarter of 2018 largely related to the payment of interest.

Investing Activities

Cash used for investing activities in the second quarter of 2019 was $150.2 million, compared to $637.4 million for the previous quarter and $85.7 million for the same quarter of 2018. In the second quarter of 2019, the Company completed the first phase of 49% of the acquisition of Elliott, which included a cash payment of $52.0 million (US$38.5 million), and an advance of $8.5 million (US$6.2 million) to Elliott under a loan agreement (see further discussion in the "Phased Purchase of Elliott Sawmilling Co., LLC" section later in this document). In addition to the investment in Elliott, Canfor advanced $19.5 million to a counterparty during the second quarter of 2019 in exchange for an annual fibre supply. This compared to $562.6 million consideration paid for the acquisition of Vida in the first quarter of 2019. Capital additions in the current quarter were $82.0 million, up $7.3 million from the previous quarter and down $5.6 million from the second quarter of 2018. Current quarter lumber segment capital expenditures of $57.0 million primarily included additional capital deployed in the US South including major upgrades at the Company's Camden and Fulton sawmills, as well as sustaining capital in Western Canada. In the pulp segment, current quarter capital expenditures of $24.4 million primarily related to smaller high-return discretionary projects and maintenance-of-business capital, combined with capital expenditures associated with the implementation of CPPI's new ERP software system, which went live in May 2019.

Liquidity and Financial Requirements

Operating Loans - Consolidated

At June 30, 2019, the Company, on a consolidated basis, had cash of $50.3 million, $358.9 million drawn on its operating loans, and $77.6 million reserved for several standby letters of credit. At period end, the Company had total available undrawn operating loans of $386.1 million, including undrawn facilities for letters of credit.

Operating Loans – Canfor, excluding Vida and CPPI

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

Interest is payable on Canfor's 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.

At June 30, 2019, Canfor, excluding Vida and CPPI, had an undrawn $217.4 million operating loan facility, and $64.6 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 June 30, 2019.

Operating Loans – Vida

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 June 30, 2019, $20.9 million was drawn on Vida's $92.6 million operating loan facilities (including overdraft facilities).

Operating Loans – CPPI

At June 30, 2019, CPPI had an undrawn $110.0 million operating loan facility, with $13.0 million reserved for several standby letters of credit. During the second quarter of 2019, CPPI repaid $23.0 million of its operating loan facility drawn during the first quarter of 2019.

As at June 30, 2019, CPPI had $97.0 million available and undrawn on its operating loan facility.

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. 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.

Following the acquisition completed in the prior quarter, Vida's long-term debt of $21.0 million was consolidated into Canfor's balance sheet. Vida's term debt is subject to floating rates of interest and has maturity dates ranging from October 31, 2019 to November 30, 2024.

Debt to Capitalization

The Company's consolidated net debt to total capitalization at the end the second quarter of 2019 was 29.9%. For Canfor, excluding CPPI, net debt to capitalization at the end of the second quarter of 2019 was 35.1%.

Debt Covenants

Canfor, Vida and CPPI remained fully 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 and no shares were purchased under Canfor's normal course issuer bid, or under CPPI's separate normal course issuer bid during the first and second quarters of 2019. Canfor and CPPI may purchase shares through 2019; however, subject to the terms of their normal course issuer bids.

As at June 30, 2019 and July 25, 2019, there were 125,219,400 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%.

Phased Purchase of Elliott Sawmilling Co., LLC

On May 31, 2019, the Company completed the first of a two phase purchase of Elliott, with an aggregate purchase price of US$110.5 million, including normalized working capital. In accordance with IAS 28 *Investments in Associates and Joint Ventures*, during the second quarter of 2019, the first phase purchase of 49% has been recognized as an equity investment, accounted for under the equity method, consisting of an initial cash payment of $52.0 million (US$38.5 million), and an additional $21.1 million (US$15.6 million) included as an "Other Current Liability" on Canfor's consolidated balance sheet as a June 30, 2019. Equity income and transactions costs of $0.1 million were recognized during the second quarter of 2019. On May 31, 2020, Canfor will increase its ownership interest to 100%, at which time Elliott's results and balances are expected to be consolidated into Canfor's.

As part of the first phase of the transaction, Canfor advanced $8.5 million (US$6.2 million) to Elliott in the form of a term loan facility. The term loan facility has an interest rate equal to the floating rate on Canfor's principal operating loan facilities, plus 1.0%, and is secured by Elliott's operating assets. The outstanding term loan receivable of $8.2 million (US$6.2 million) has been offset against the balance of the above mentioned 'Other Current Liability' of $21.1 million (US$15.6 million). After adjusting for changes in foreign exchange between the initial investment date and quarter-end, a net other current liability of $12.3 million (US$9.4 million) was recorded at June 30, 2019.

Commitments

On June 3, 2019, the Company announced its plans to permanently close its Vavenby sawmill located in British Columbia during the third quarter of 2019. As a result, restructuring costs of $11.5 million associated with the closure have been recognized in the second quarter of 2019.

Also on June 3, 2019, Canfor announced that it had entered into an agreement to sell its forest tenure associated with the Vavenby sawmill to Interfor for an aggregate purchase price of $60.0 million. The sale of the forest tenure is subject to customary closing conditions, including the consent of the Minister of Forests, and is expected to be finalized in the third quarter of 2019.

As a result of the announced closure and pending sale, the Vavenby sawmill fixed assets and forest tenure have been reclassified to 'Assets Held for Sale', and the reforestation provision associated with the forest tenure has been reclassified to 'Liabilities Held for Sale' on the balance sheet as at June 30, 2019.

In accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, upon initial classification to Assets Held for Sale, the carrying value of the Vavenby disposal group was assessed for impairment, with no adjustment required.

Subsequent Event

Subsequent to quarter-end, the Company announced further capacity reductions at two of its BC sawmills. The Mackenzie sawmill has been indefinitely curtailed effective July 18, 2019. The Isle Pierre sawmill will be permanently reduced from two shifts to one shift effective September 20, 2019, to enable the mill to better align its production capacity with sustainable fibre supply in the region. Combined, these curtailments will further reduce Canfor's annual production output by approximately 400 million board feet.

OUTLOOK

Lumber

Looking ahead to the second half of 2019, demand in the US housing sector is anticipated to remain steady, reflecting a gradual pick-up in construction activity into the fall, combined with solid demand in the repair and remodeling sector. Market-based stumpage in BC increased materially on July 1, 2019. Given the high cost of fibre and ongoing weak lumber prices, additional curtailments and mill closures in this region are expected. As a result, lumber prices are forecast to gradually improve, as supply becomes more in balance with demand. Lumber prices in Asia are also expected to improve as inventory levels throughout the supply chain stabilize. Through the balance of 2019, European SPF lumber prices are anticipated to experience some pricing pressure driven principally by weakness experienced in other regions in the second quarter, mitigated in part by a moderate decline in log costs. The Company's European lumber business will take its traditional seasonal production downtime in the third quarter of 2019, reducing European SPF lumber production by approximately 70 million board feet.

Pulp and Paper

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, CPPI is taking phased summer curtailments at its Intercontinental and Northwood NBSK pulp mills in Prince George, BC, as well as at its BCTMP mill in Taylor, BC. In addition, CPPI 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 CPPI'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.

LABOUR AGREEMENTS

Canfor's collective agreement with the United Steelworkers ("USW") expired on June 30, 2018. All of Canfor's BC Certified sawmills, with the exception of one sawmill, have ratified a Memorandum of Agreement ("MOA") with the USW for a new five-year term. The one remaining sawmill continues to work through the ratification process.

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* ("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 $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 acquisitions of 70% of Vida and 49% of Elliott, the scope of the Company's design of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") has excluded the controls, policies and procedures of Vida and Elliott as at June 30, 2019. Following the completion of 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 acquisitions is provided under Note 14 of Canfor's consolidated interim financial statements.

Other than the aforementioned acquisitions, there were no changes in the Company's internal controls over financial reporting during the quarter ended June 30, 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

	Q2 2019	**Q1 2019**	**Q4 2018**	**Q3 2018**	**Q2 2018**	**Q1 2018**	**Q4 2017**	**Q3 2017**
Sales and income (millions of Canadian dollars)								
Sales	**$ 1,313.0**	$ 1,148.7	$ 1,028.1	$ 1,323.3	$ 1,459.5	$ 1,233.5	$ 1,156.0	$ 1,142.5
Operating income (loss)	**$ (49.7)**	$ (69.9)	$ (79.1)	$ 201.8	$ 282.1	$ 203.8	$ 214.2	$ 105.4
Net income (loss)	**$ (40.4)**	$ (83.1)	$ (46.0)	$ 144.9	$ 198.6	$ 141.5	$ 152.6	$ 72.6
Shareholder net income (loss)	**$ (48.6)**	$ (89.5)	$ (52.4)	$ 125.3	$ 169.8	$ 112.2	$ 131.8	$ 66.2
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ (0.39)**	$ (0.71)	$ (0.42)	$ 0.98	$ 1.32	$ 0.87	$ 1.02	$ 0.51
Book value[27]	**$ 14.13**	$ 14.69	$ 16.42	$ 16.66	$ 15.95	$ 14.52	$ 13.46	$ 12.32
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)[28]	**1,474**	1,190	1,114	1,291	1,351	1,196	1,205	1,334
Pulp shipments (000 mt)	**288**	259	231	262	329	310	300	303
Average exchange rate – US$/Cdn$	**$ 0.748**	$ 0.752	$ 0.758	$ 0.765	$ 0.774	$ 0.791	$ 0.786	$ 0.798
Average exchange rate – SEK/Cdn$	**7.059**	6.905	6.842	6.844	6.720	6.413	6.544	6.493
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 333**	$ 372	$ 327	$ 482	$ 598	$ 513	$ 462	$ 406
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 393**	$ 416	$ 457	$ 488	$ 589	$ 566	$ 455	$ 408
Average NBSK pulp list price delivered to China (US$)	**$ 653**	$ 710	$ 805	$ 887	$ 910	$ 910	$ 863	$ 670
Average European indicative SPF lumber price in SEK[29]	**4,003**	4,111	4,235	4,284	4,145	3,815	3,614	3,353

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

[27] 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.

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

[29] Preliminary quarterly European indicative lumber price is an internally generated benchmark based on delivered price to the largest continental market.

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)	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017
Shareholder net income (loss), as reported	**$ (48.6)**	$ (89.5)	$ (52.4)	$ 125.3	$ 169.8	$ 112.2	$ 131.8	$ 66.2
Foreign exchange (gain) loss on long-term debt and duties recoverable, net	**$ (2.9)**	$ 0.8	$ 2.1	$ (0.7)	$ 1.0	$ 1.9	$ 0.6	$ (4.4)
Countervailing and anti-dumping duty deposit expense (recovery), net[30]	**$ 33.0**	$ 26.5	$ 28.8	$ 31.1	$ 37.7	$ 25.5	$ (17.3)	$ 23.8
(Gain) loss on derivative financial instruments	**$ (1.7)**	$ 25.4	$ (6.5)	$ 1.2	$ 5.6	$ 5.8	$ 4.8	$ 1.4
Change in substantively enacted tax rates[31]	**$ -**	$ -	$ -	$ -	$ -	$ -	$ (5.1)	$ -
Restructuring costs[32]	**$ 8.4**	$ -	$ -	$ -	$ -	$ -	$ -	$ (2.4)
Net impact of above items	**$ 36.8**	$ 52.7	$ 24.4	$ 31.6	$ 44.3	$ 33.2	$ (17.0)	$ 18.4
Adjusted shareholder net income (loss)	**$ (11.8)**	$ (36.8)	$ (28.0)	$ 156.9	$ 214.1	$ 145.4	$ 114.8	$ 84.6
Shareholder net income (loss) per share (EPS), as reported	**$ (0.39)**	$ (0.71)	$ (0.42)	$ 0.98	$ 1.32	$ 0.87	$ 1.02	$ 0.51
Net impact of above items per share[33]	**$ 0.29**	$ 0.42	$ 0.19	$ 0.25	$ 0.34	$ 0.26	$ (0.13)	$ 0.14
Adjusted net income (loss) per share[33]	**$ (0.10)**	$ (0.29)	$ (0.23)	$ 1.23	$ 1.60	$ 1.13	$ 0.89	$ 0.65

[30] 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.

[31] 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.

[32] In the second quarter of 2019, the Company announced the permanent closure of the Vavenby sawmill and recorded restructuring costs of $11.5 million. In the third quarter of 2017, $3.2 million (before-tax) of the closure provision related to Canal Flats was reversed.

[33] The year-to-date net impact of the adjusting items per share and adjusted net income (loss) 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 June 30, 2019**		As at December 31, 2018
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**50.3**	$	252.7
Accounts receivable - Trade		**361.0**		182.1
- Other		**43.2**		52.4
Income taxes receivable		**58.2**		32.5
Inventories (Note 3)		**903.3**		762.5
Prepaid expenses and other		**90.8**		67.1
Assets held for sale (Note 8)		**57.9**		-
Total current assets		**1,564.7**		1,349.3
Property, plant and equipment		**2,014.4**		1,607.2
Right-of-use assets (Note 4(a))		**60.9**		-
Timber licenses		**452.7**		504.1
Goodwill and other intangible assets (Note 14(b))		**477.8**		268.3
Long-term investments and other (Note 5)		**181.8**		110.4
Retirement benefit surplus (Note 7)		**1.5**		4.9
Deferred income taxes, net		**0.9**		0.9
Total assets	**$**	**4,754.7**	$	3,845.1
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 8)	**$**	**583.9**	$	458.9
Operating loans (Note 6(a))		**358.9**		-
Current portion of deferred reforestation obligations		**50.3**		52.9
Current portion of long-term debt (Note 6(b))		**13.2**		0.4
Other current liability (Note 14(a))		**12.3**		-
Current portion of lease obligations (Note 4(b))		**17.1**		-
Income tax payable		**5.3**		-
Liabilities held for sale (Note 8)		**4.3**		-
Total current liabilities		**1,045.3**		512.2
Long-term debt (Note 6(b))		**635.5**		408.0
Retirement benefit obligations (Note 7)		**245.4**		254.7
Lease obligations (Note (4(b))		**46.7**		-
Deferred reforestation obligations		**75.3**		63.9
Other long-term liabilities		**21.7**		24.6
Put liability (Note 14(b))		**117.0**		-
Deferred income taxes, net		**323.1**		241.8
Total liabilities	**$**	**2,510.0**	$	1,505.2
EQUITY				
Share capital	**$**	**987.9**	$	987.9
Contributed surplus and other equity (Note 14(b))		**(86.7)**		31.9
Retained earnings		**791.4**		931.1
Accumulated other comprehensive income		**76.5**		105.5
Total equity attributable to equity shareholders of the Company		**1,769.1**		2,056.4
Non-controlling interests		**475.6**		283.5
Total equity	**$**	**2,244.7**	$	2,339.9
Total liabilities and equity	**$**	**4,754.7**	$	3,845.1

Subsequent Event (Note 16)

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 June 30, **2019**	3 months ended June 30, 2018	6 months ended June 30, **2019**	6 months ended June 30, 2018
Sales	**$ 1,313.0**	$ 1,459.5	**$ 2,461.7**	$ 2,693.0
Costs and expenses				
Manufacturing and product costs	**1,003.4**	855.4	**1,907.6**	1,606.0
Freight and other distribution costs	**178.1**	176.5	**337.5**	328.9
Countervailing and anti-dumping duty expense, net (Note 15)	**45.2**	51.7	**81.5**	86.6
Amortization	**92.8**	67.6	**179.3**	132.4
Selling and administration costs	**31.7**	26.2	**63.9**	53.2
Restructuring costs (Note 8)	**11.5**	-	**11.5**	-
	$ 1,362.7	$ 1,177.4	**$ 2,581.3**	$ 2,207.1
Operating income (loss)	**(49.7)**	282.1	**(119.6)**	485.9
Finance expense, net	**(14.6)**	(6.2)	**(25.1)**	(12.9)
Foreign exchange gain (loss) on long-term debt	**4.6**	(2.7)	**5.1**	(6.2)
Foreign exchange gain (loss) on duties recoverable, net (Note 5)	**(1.4)**	1.5	**(3.1)**	2.8
Gain (loss) on derivative financial instruments (Note 9)	**2.6**	(7.6)	**(25.8)**	(15.6)
Other income (expense), net	**(1.0)**	3.3	**0.8**	8.6
Net income (loss) before income taxes	**(59.5)**	270.4	**(167.7)**	462.6
Income tax recovery (expense) (Note 10)	**19.1**	(71.8)	**44.2**	(122.5)
Net income (loss)	**$ (40.4)**	$ 198.6	**$ (123.5)**	$ 340.1
Net income (loss) attributable to:				
Equity shareholders of the Company	**$ (48.6)**	$ 169.8	**$ (138.1)**	$ 282.0
Non-controlling interests	**8.2**	28.8	**14.6**	58.1
Net income (loss)	**$ (40.4)**	$ 198.6	**$ (123.5)**	$ 340.1
Net income (loss) per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 11)	**$ (0.39)**	$ 1.32	**$ (1.10)**	$ 2.19

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 June 30, **2019**	3 months ended June 30, 2018	6 months ended June 30, **2019**	6 months ended June 30, 2018
Net income (loss)	**$ (40.4)**	$ 198.6	**$ (123.5)**	$ 340.1
Other comprehensive income (loss)				
Items that will not be recycled through net income (loss):				
Defined benefit plan actuarial gains (Note 7)	**12.4**	2.0	**5.1**	15.2
Income tax expense on defined benefit plan actuarial gains (Note 10)	**(3.4)**	(0.5)	**(1.4)**	(4.1)
	9.0	1.5	**3.7**	11.1
Items that may be recycled through net income (loss):				
Foreign exchange translation of foreign operations, net of tax	**(25.4)**	12.5	**(29.0)**	27.6
Other comprehensive income (loss), net of tax	**(16.4)**	14.0	**(25.3)**	38.7
Total comprehensive income (loss)	**$ (56.8)**	$ 212.6	**$ (148.8)**	$ 378.8
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	**$ (69.8)**	$ 183.8	**$ (167.1)**	$ 319.6
Non-controlling interests	**13.0**	28.8	**18.3**	59.2
Total comprehensive income (loss)	**$ (56.8)**	$ 212.6	**$ (148.8)**	$ 378.8

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 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	**$ 987.9**	$ 1,014.7	**$ 987.9**	$ 1,014.9
Share purchases	**-**	-	**-**	(0.2)
Balance at end of period	**$ 987.9**	$ 1,014.7	**$ 987.9**	$ 1,014.7
Contributed surplus and other equity				
Balance at beginning of period	**$ (86.7)**	$ 31.9	**$ 31.9**	$ 31.9
Put liability related to Vida acquisition (Note 14(b))	**-**	-	**(118.6)**	-
Balance at end of period	**$ (86.7)**	$ 31.9	**$ (86.7)**	$ 31.9
Retained earnings				
Balance at beginning of period	**$ 835.8**	$ 751.2	**$ 931.1**	$ 629.5
Net income (loss) attributable to equity shareholders of the Company	**(48.6)**	169.8	**(138.1)**	282.0
Defined benefit plan actuarial gains, net of tax	**4.2**	1.5	**-**	10.0
Impact of change in accounting policy (Notes 1 and 4)	**-**	-	**(1.6)**	-
Share purchases	**-**	-	**-**	(0.3)
Non-controlling interests arising from change in partnership interest in pellet plants	**-**	-	**-**	1.3
Balance at end of period	**$ 791.4**	$ 922.5	**$ 791.4**	$ 922.5
Accumulated other comprehensive income (loss)				
Balance at beginning of period	**$ 101.9**	$ 70.2	**$ 105.5**	$ 55.1
Foreign exchange translation of foreign operations, net of tax	**(25.4)**	12.5	**(29.0)**	27.6
Balance at end of period	**$ 76.5**	$ 82.7	**$ 76.5**	$ 82.7
Total equity attributable to equity shareholders of the Company	**$ 1,769.1**	$ 2,051.8	**$ 1,769.1**	$ 2,051.8
Non-controlling interests				
Balance at beginning of period	**$ 477.1**	$ 300.7	**$ 283.5**	$ 269.6
Net income (loss) attributable to non-controlling interests	**8.2**	28.8	**14.6**	58.1
Defined benefit plan actuarial gains attributable to non-controlling interests, net of tax	**4.8**	-	**3.7**	1.1
Distributions to non-controlling interests	**(10.5)**	(2.0)	**(15.5)**	(3.8)
Impact of change in accounting policy (Notes 1 and 4)	**-**	-	**(0.1)**	-
Non-controlling interests arising from acquisition (Note 14(b))	**(4.0)**	-	**189.4**	-
Non-controlling interests arising from change in partnership interest in pellet plants	**-**	-	**-**	2.5
Balance at end of period	**$ 475.6**	$ 327.5	**$ 475.6**	$ 327.5
Total equity	**$ 2,244.7**	$ 2,379.3	**$ 2,244.7**	$ 2,379.3

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 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 (loss)	**$ (40.4)**	$ 198.6	**$ (123.5)**	$ 340.1
Items not affecting cash:				
Amortization	**92.8**	67.6	**179.3**	132.4
Income tax expense (recovery)	**(19.1)**	71.8	**(44.2)**	122.5
Long-term portion of deferred reforestation obligations	**(3.7)**	(3.1)	**12.5**	13.8
Foreign exchange (gain) loss on long-term debt	**(4.6)**	2.7	**(5.1)**	6.2
Foreign exchange (gain) loss on duty deposits recoverable, net	**1.4**	(1.5)	**3.1**	(2.8)
Adjustment to accrued duties (Note 15)	**7.9**	(10.1)	**11.0**	(23.0)
Changes in mark-to-market value of derivative financial instruments	**(1.4)**	2.0	**15.6**	4.9
Employee future benefits expense	**2.5**	3.1	**5.4**	6.1
Vavenby restructuring costs (Note 8)	**11.5**	-	**11.5**	-
Finance expense, net	**14.6**	6.2	**25.1**	12.9
Other, net	**-**	2.3	**(0.8)**	4.9
Defined benefit plan contributions, net	**(6.0)**	(7.3)	**(10.7)**	(14.6)
Income taxes received (paid), net	**8.2**	(24.3)	**(1.4)**	(71.1)
	63.7	308.0	**77.8**	532.3
Net change in non-cash working capital (Note 12)	**141.3**	61.9	**(21.7)**	(90.2)
	205.0	369.9	**56.1**	442.1
Financing activities				
Change in operating bank loans (Note 6(a))	**(45.8)**	-	**341.6**	-
Proceeds from long-term debt (Note 6(b))	**-**	-	**231.7**	-
Repayment of long-term debt (Note 6(b))	**(0.2)**	(0.1)	**(0.4)**	(0.2)
Payment of lease obligations (Note 4(b))	**(4.0)**	-	**(7.3)**	-
Finance expenses paid	**(14.4)**	(7.3)	**(21.6)**	(11.0)
Share purchases	**-**	-	**-**	(4.2)
Acquisition of non-controlling interests	**-**	-	**-**	(0.1)
Cash distributions paid to non-controlling interests	**(10.5)**	(2.0)	**(15.5)**	(3.8)
	(74.9)	(9.4)	**528.5**	(19.3)
Investing activities				
Additions to property, plant and equipment, timber, and intangible assets, net	**(82.0)**	(87.6)	**(156.7)**	(144.0)
Proceeds on disposal of property, plant, and equipment	**1.4**	0.3	**1.6**	1.1
Preliminary consideration paid for acquisition of Vida, net of cash acquired (Note 14(b))	**-**	-	**(562.6)**	-
First phase investment in Elliott (Note 14(a))	**(52.0)**	-	**(52.0)**	-
Term loan to Elliott (Note 14(a))	**(8.5)**	-	**(8.5)**	-
Other, net	**(9.1)**	1.6	**(9.4)**	1.4
	(150.2)	(85.7)	**(787.6)**	(141.5)
Foreign exchange gain (loss) on cash and cash equivalents	**(1.2)**	1.9	**0.6**	3.3
Increase (decrease) in cash and cash equivalents*	**(21.3)**	276.7	**(202.4)**	284.6
Cash and cash equivalents at beginning of period*	**71.6**	296.1	**252.7**	288.2
Cash and cash equivalents at end of period*	**$ 50.3**	$ 572.8	**$ 50.3**	$ 572.8

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

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 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 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 June 30, 2019**	As at December 31, 2018
Logs	**$ 225.9**	$ 199.5
Finished products	**525.6**	389.3
Residual fibre	**26.0**	44.8
Materials and supplies	**125.8**	128.9
	$ 903.3	$ 762.5

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended June 30, 2019, a $25.0 million recovery was recognized in the lumber and log inventory write-down provision (six months ended June 30, 2019 – write-down of $13.6 million), offset by a $13.4 million write-down to pulp raw materials and pulp finished products (six months ended June 30, 2019 – write-down of $13.7 million).

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	-	0.2	17.5	0.5	5.4	23.6
Disposal and transfers	-	-	(1.8)	(0.1)	-	(1.9)
Effect of movements in exchange rates	-	-	(0.2)	-	(0.2)	(0.4)
Balance at June 30, 2019	$ 1.5	$ 7.2	$ 57.9	$ 7.0	$ 23.0	$ 96.6
Amortization						
Balance at January 1, 2019	$ (0.9)	$ (3.7)	$ (14.0)	$ (1.7)	$ (8.9)	$ (29.2)
Amortization	-	(0.6)	(4.9)	(0.8)	(1.4)	(7.7)
Disposal and transfers	-	-	1.1	0.1	-	1.2
Balance at June 30, 2019	$ (0.9)	$ (4.3)	$ (17.8)	$ (2.4)	$ (10.3)	$ (35.7)
Carrying Amounts						
At January 1, 2019	$ 0.6	$ 3.3	$ 28.4	$ 4.9	$ 8.9	$ 46.1
At June 30, 2019	**$ 0.6**	**$ 2.9**	**$ 40.1**	**$ 4.6**	**$ 12.7**	**$ 60.9**

For the three and six months ended June 30, 2019, amortization expense for right-of-use assets was $4.3 million and $7.7 million, respectively.

(b) Lease Obligations

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

(millions of Canadian dollars, unaudited)	**As at June 30, 2019**
Within one year	**$ 18.4**
Between one and five years	**47.7**
Beyond five years	**5.4**
Total undiscounted lease obligations	**$ 71.5**

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

(millions of Canadian dollars, unaudited)	
Current	**$ 17.1**
Non-Current	**46.7**
Total discounted lease obligations	**$ 63.8**

Interest expense on lease obligations for the three and six months ended June 30, 2019 was $0.7 million and $1.3 million, respectively. Interest expense on lease obligations 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 and six months ended June 30, 2019, was $1.4 million and $3.3 million, respectively.

For the three months ended June 30, 2019, total cash outflows for leases was $5.4 million, including $1.4 million for short-term and low-value leases. For the six months ended June 30, 2019, total cash outflows for leases was $10.6 million, including $3.3 million for short-term and low-value leases.

5. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)		**As at June 30, 2019**		As at December 31, 2018
Investments (Note 14(a))	**$**	**84.3**	$	21.0
Duty deposits recoverable, net (Note 15)		**62.6**		76.6
Other deposits, loans and advances and long-term assets		**34.9**		12.8
	$	**181.8**	$	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 June 30, 2019 (Note 15).

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. In contemplation of completing the fibre supply agreement, Canfor advanced a total of $19.5 million to the counterparty on April 5, 2019, which is included in 'Other Deposits, Loans and Advances and Long-Term Assets' above.

6. Operating Loans and Long-Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)		**As at June 30, 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		**(338.0)**		-
Letters of credit		**(64.6)**		(57.4)
Total available operating loan facility - Canfor	**$**	**217.4**	$	452.6
Vida				
Available operating loans:				
Operating loan facilities	**$**	**71.5**	$	-
Overdraft facilities		**21.1**		-
Total operating loan facility		**92.6**		-
Operating loan facilities drawn		**(7.7)**		-
Overdraft facilities drawn		**(13.2)**		-
Total available operating loan facility - Vida	**$**	**71.7**	$	-
CPPI				
Available operating loans:				
Operating loan facility	**$**	**110.0**	$	110.0
Letters of credit		**(13.0)**		(11.1)
Total available operating loan facility - CPPI	**$**	**97.0**	$	98.9
Consolidated:				
Total operating loan facilities	**$**	**822.6**	$	620.0
Total available operating loan facilities	**$**	**386.1**	$	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 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.

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%. At June 30, 2019, $20.9 million of Vida's $92.6 million operating facilities were included in the Company's consolidated balance sheet.

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. During the second quarter of 2019, the Company repaid $23.0 million of the operation loan facility drawn during the first quarter of 2019.

At June 30, 2019, the Company had total available undrawn operating loans of $386.1 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 June 30, 2019, Canfor, Vida and CPPI are fully 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 June 30, 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		**261.7**		136.4
US$100.0 million, fixed interest of 4.40%, repayable in three equal tranches on October 2, 2023, 2024 and 2025		**130.9**		136.4
Other (US$7.7 million)[1]		**10.1**		10.6
Vida				
SEK 74.5 million, floating interest, repayable October 31, 2019		**10.5**		-
SEK 19.0 million, floating interest, repayable November 30, 2019		**2.4**		-
SEK 2.8 million, floating interest, repayable November 30, 2024		**0.4**		-
SEK 4.2 million, floating interest, repayable April 30, 2022		**0.5**		-
AUD 7.6 million, floating interest, with no fixed maturity date		**7.2**		-
Long-term debt at end of period	**$**	**648.7**	$	408.4
Less: Current portion		**(13.2)**		(0.4)
Long-term portion	**$**	**635.5**	$	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 (December 31, 2018 – US$100.0 million) on December 14, 2018 and extended its maturity date from September 28, 2025 to January 2, 2027.

During the first quarter of 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.

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 June 30, 2019, Canfor and Vida are fully in compliance with all covenants relating to their long-term debt.

Fair value of total long-term debt

At June 30, 2019, the fair value of the Company's long-term debt is $652.6 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

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 a $32.0 million pre-tax reduction of the non-pension post-retirement benefit obligation, with a corresponding gain recognized in other comprehensive income (loss). 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 $95.7 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 $12.4 million (before tax) were recognized in other comprehensive income (loss) 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 $5.1 million (before tax) were recognized in other comprehensive income (loss). For the three and six months ended June 30, 2018, the Company recognized actuarial gains in other comprehensive income (loss) of $2.0 million and $15.2 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%

8. Restructuring Provision and Assets Held for Sale

On June 3, 2019, the Company announced its plans to permanently close its Vavenby sawmill located in British Columbia during the third quarter of 2019. As a result, restructuring costs of $11.5 million associated with the closure have been recognized for the three and six months ended June 30, 2019. Of the total restructuring costs, $10.9 million is included in 'Accounts Payable and Accrued Liabilities' with $0.6 million recognized in 'Other Long-Term Liabilities' on the Company's balance sheet as at June 30, 2019. Also on June 3, 2019, Canfor announced that it had entered into an agreement to sell its forest tenure associated with the Vavenby sawmill to Interfor for proceeds of $60.0 million. The sale of the forest tenure is subject to customary closing conditions, including the consent of the Minister of Forests, and is currently anticipated to be finalized in the third quarter of 2019.

As a result of the announced closure and pending sale, the Vavenby sawmill fixed assets and forest tenure have been reclassified to 'Assets Held for Sale', and the reforestation provision associated with the forest tenure has been reclassified to 'Liabilities Held for Sale' on the balance sheet as at June 30, 2019.

In accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, upon initial classification to Assets Held for Sale, the carrying value of the Vavenby disposal group was assessed for impairment, with no adjustment required.

9. Financial Instruments

Canfor's cash and cash equivalents, trade and other accounts receivables, certain long-term investments, accounts payable and accrued liabilities, other 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 June 30, 2019 and December 31, 2018. Derivative instruments and investments in debt and equity securities (excluding associates accounted for under the equity method) 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 June 30, 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 June 30, 2019**		As at December 31, 2018
Financial assets measured at fair value					
Investments	Level 1	**$**	**10.6**	$	20.1
Derivative financial instruments	Level 2		**1.2**		18.8
		$	**11.8**	$	38.9
Financial liabilities measured at fair value					
Derivative financial instruments	Level 2	**$**	**-**	$	0.6
		$	**0.1**	$	0.6

The following table summarizes the gain (loss) on derivative financial instruments for the three and six-month periods ended June 30, 2019 and 2018:

(millions of Canadian dollars, unaudited)		3 months ended June 30, **2019**		2018		6 months ended June 30, **2019**		2018
Energy derivatives	**$**	**-**	$	-	**$**	**-**	$	(0.1)
Lumber futures		**0.3**		(7.6)		**5.4**		(15.5)
Forward foreign exchange contracts		**2.3**		-		**(31.2)**		-
Gain (loss) on derivative financial instruments	**$**	**2.6**	$	(7.6)	**$**	**(25.8)**	$	(15.6)

10. Income Taxes

(millions of Canadian dollars, unaudited)		3 months ended June 30, **2019**		2018		6 months ended June 30, **2019**		2018
Current	**$**	**20.4**	$	(61.2)	**$**	**37.1**	$	(118.0)
Deferred		**(1.3)**		(10.6)		**7.1**		(4.5)
Income tax recovery (expense)	**$**	**19.1**	$	(71.8)	**$**	**44.2**	$	(122.5)

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 June 30, **2019**		2018		6 months ended June 30, **2019**		2018
Income tax recovery (expense) at statutory rate – 27% (2018 – 27%)	**$**	**16.1**	$	(73.0)	**$**	**45.3**	$	(124.9)
Add (deduct):								
Non-taxable income related to non-controlling interests		**0.2**		0.1		**0.2**		0.2
Entities with different income tax rates and other tax adjustments		**3.4**		1.6		**3.3**		3.2
Permanent difference from capital gains and losses and other non-deductible items		**(0.6)**		(0.5)		**(4.6)**		(1.0)
Income tax recovery (expense)	**$**	**19.1**	$	(71.8)	**$**	**44.2**	$	(122.5)

In addition to the amounts recorded to net income (loss), a tax expense of $3.4 million was recorded to other comprehensive income (loss) for the three months ended June 30, 2019 in relation to the actuarial gains on defined benefit plans (three months ended June 30, 2018 – $0.5 million). For the six months ended June 30, 2019, the tax expense was $1.4 million (six months ended June 30, 2018 – $4.1 million).

Also included in other comprehensive income (loss) for the three months ended June 30, 2019 was a tax recovery of $0.8 million related to foreign exchange differences on translation of investments in foreign operations (three months ended June 30, 2018 - expense of $0.8 million). For the six months ended June 30, 2019, the tax recovery was $1.6 million (six months ended June 30, 2018 - expense of $1.8 million).

11. Earnings (Loss) 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 June 30,		6 months ended June 30,	
	2019	2018	**2019**	2018
Weighted average number of common shares	**125,219,400**	128,625,480	**125,219,400**	128,625,694

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 three and six months ended June 30, 2019, the Company did not purchase any common shares.

As at June 30, 2019 and July 25, 2019 there were 125,219,400 common shares of the Company outstanding. As at June 30, 2019 and July 25, 2019, Canfor's ownership interest in CPPI was 54.8%.

12. 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	**$ 30.8**	$ (51.1)	**$ (34.4)**	$ (102.6)
Inventories	**144.9**	134.8	**47.8**	(4.9)
Prepaid expenses and other	**(1.4)**	(8.1)	**(21.3)**	(25.5)
Accounts payable and accrued liabilities, current portion of deferred reforestation obligations and other current liability	**(33.0)**	(13.7)	**(13.8)**	42.8
Net decrease (increase) in non-cash working capital	**$ 141.3**	$ 61.9	**$ (21.7)**	$ (90.2)

13. 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 14(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 June 30, 2019					
Sales from contracts with customers	**$ 993.5**	**$ 319.5**	**$ -**	**$ -**	**$ 1,313.0**
Sales to other segments	**61.0**	**-**	**-**	**(61.0)**	**-**
Operating income (loss)	**(60.6)**	**18.4**	**(7.5)**	**-**	**(49.7)**
Amortization	**69.3**	**23.3**	**0.2**	**-**	**92.8**
Capital expenditures[1]	**57.0**	**24.4**	**0.6**	**-**	**82.0**

(millions of Canadian dollars, unaudited)	Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment	Consolidated
3 months ended June 30, 2018					
Sales from contracts with customers	$ 1,063.2	$ 396.3	$ -	$ -	$ 1,459.5
Sales to other segments	62.1	0.1	-	(62.2)	-
Operating income (loss)	203.4	85.4	(6.7)	-	282.1
Amortization	47.9	19.7	-	-	67.6
Capital expenditures[1]	61.8	24.8	1.0	-	87.6
6 months ended June 30, 2019					
Sales from contracts with customers	**$ 1,838.2**	**$ 623.5**	**$ -**	**$ -**	**$ 2,461.7**
Sales to other segments	**124.4**	**-**	**-**	**(124.4)**	**-**
Operating income (loss)	**(138.6)**	**36.5**	**(17.5)**	**-**	**(119.6)**
Amortization	**133.3**	**45.6**	**0.4**	**-**	**179.3**
Capital expenditures[1]	**105.3**	**49.9**	**1.5**	**-**	**156.7**
Identifiable assets	**3,598.6**	**927.4**	**228.7**	**-**	**4,754.7**
6 months ended June 30, 2018					
Sales from contracts with customers	$ 1,937.1	$ 755.9	$ -	$ -	$ 2,693.0
Sales to other segments	112.2	0.2	-	(112.4)	-
Operating income (loss)	329.3	170.5	(13.9)	-	485.9
Amortization	93.5	38.9	-	-	132.4
Capital expenditures[2]	94.9	44.6	4.5	-	144.0
Identifiable assets	2,413.4	872.5	707.8	-	3,993.7

[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 14(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 June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2019**	2018	**2019**	2018
Sales by location of customer				
Canada	**$ 122.9**	$ 155.5	**$ 252.3**	$ 303.2
Asia	**324.0**	447.8	**640.3**	840.1
United States	**609.9**	794.0	**1,187.7**	1,442.5
Europe	**218.7**	26.5	**310.9**	47.4
Other	**37.5**	35.7	**70.5**	59.8
	$ 1,313.0	$ 1,459.5	**$ 2,461.7**	$ 2,693.0

14. Acquisitions

(a) Elliott Sawmilling Co., LLC

On May 31, 2019, the Company completed the first phase of the two phase purchase of Elliott, with an aggregate purchase price of US$110.5 million, including normalized working capital. In accordance with IAS 28 *Investments in Associates and Joint Ventures*, during the second quarter of 2019, the first phase purchase of 49% has been recognized as an equity investment, accounted for under the equity method, consisting of an initial cash payment of $52.0 million (US$38.5 million), and an additional $21.1 million (US$15.6 million) included as an 'Other Current Liability' on Canfor's consolidated balance sheet as at June 30, 2019. Equity income and transaction costs of $0.1 million were recognized for the three and six months ended June 30, 2019. On May 31, 2020, Canfor will increase its ownership interest to 100%, at which time Elliott's results and balances are expected to be consolidated into Canfor's.

As part of the first phase of the transaction, Canfor advanced $8.5 million (US$6.2 million) to Elliott in the form of a term loan facility. The term loan facility has an interest rate equal to the floating rate on Canfor's principal operating loan facilities, plus 1.0%, and is secured by Elliott's operating assets. The outstanding term loan receivable of $8.2 million (US$6.2 million) has been offset against the balance of the above mentioned 'Other Current Liability' of $21.1 million (US$15.6 million). After adjusting for changes in foreign exchange between the initial investment date and quarter-end, a net other current liability of $12.3 million (US$9.4 million) was recorded at June 30, 2019.

(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.

On a consolidated basis, for the three months ended June 30, 2019, Vida has contributed $236.5 million of sales (Q1 2019 - $87.6 million), $10.2 million of operating income (Q1 2019 – $4.6 million), and operating income before amortization of $25.9 million (Q1 2019 - $15.6 million) to Canfor's consolidated results. If the acquisition had occurred on January 1, 2019, it is estimated that for the six months ended June 30, 2019, Vida's sales would have been $482.3 million, operating income would have been $27.9 million and operating income before amortization would have been $68.0 million. In determining these amounts, it was assumed that the fair value adjustments applied at the February 28, 2019 acquisition date would have been the same if the acquisition had occurred on January 1, 2019.

The following table summarizes the preliminary consideration paid for 70% of Vida, less cash acquired at acquisition:

(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

The table below outlines the preliminary recognized amounts of identifiable assets acquired and liabilities assumed at 100%, less the 30% non-controlling interest retained by Vida shareholders at the acquisition date:

(millions of Canadian dollars, unaudited)		
Cash	$	17.9
Operating loan facilities (including overdraft facilities)		(17.6)
Long-term debt		(21.6)
Non-cash working capital, net (including inventory)		210.8
Property, plant and equipment[3]		462.7
Right-of-use assets		9.9
Other non-current assets[3]		0.5
Lease obligations		(9.9)
Other non-current liabilities (including deferred tax)[3]		(26.0)
Total preliminary net identifiable assets[3]	$	626.7
Non-controlling interest[3]		(189.7)
Preliminary goodwill[3]		219.2
Deferred tax liability on fair value adjustments, net[3]		(66.0)
Total preliminary consideration	$	590.2

[3]Balances reflect updates to preliminary fair values from that presented as at March 31, 2019.

Following the 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 further.

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 Costs'. These amounts were recorded in the Company's consolidated statement of income (loss) when incurred.

Balances that have required significant preliminary fair value adjustments to date for purchase price accounting included inventory, property, plant and equipment, goodwill and deferred income taxes. Preliminary goodwill of $219.2 million has been recognized as part of the purchase, 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 net preliminary deferred tax liability of $66.0 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 $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, if applicable, will be recognized in other equity.

As at June 30, 2019, the put liability continued to be measured at SEK 830.1 million. As a result of foreign exchange translation differences subsequent to acquisition, the put liability has been recognized as $117.0 million as at June 30, 2019.

15. 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 has been selected as a mandatory respondent for the first period of review for both CVD and ADD and is currently under review by the DOC for this first period.

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 December 31, 2018, 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 and six months ended June 30, 2019. This equates to a combined accrual rate of 26.24% and duty expense of $45.2 million and $81.5 million being recognized for the three and six months ended June 30, 2019, respectively. 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 June 30, 2019 were $354.4 million.

As at June 30, 2019, Canfor has recorded a net duty deposits recoverable of $62.6 million, consisting of a $77.9 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 $15.3 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' (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.

16. Subsequent Event

Subsequent to June 30, 2019, the Company announced further capacity reductions at two of its British Columbia sawmills. The Mackenzie sawmill has been indefinitely curtailed effective July 18, 2019. The Isle Pierre sawmill will be permanently reduced from two shifts to one shift effective September 20, 2019, to enable the mill to better align its production capacity with sustainable fibre supply in the region. Combined, these curtailments will further reduce Canfor's annual production output by approximately 400 million board feet.