News Release

Canfor Pulp Products Inc.

FOR IMMEDIATE RELEASE

CANFOR PULP PRODUCTS INC. ANNOUNCES FIRST QUARTER 2019 RESULTS AND QUARTERLY DIVIDEND

May 1, 2019 - Vancouver, B.C. - Canfor Pulp Products Inc. ("CPPI") (TSX: CFX) today reported first quarter 2019 results and quarterly dividend:

Overview

- First quarter of 2019 operating income of $18 million and net income of $11 million, or $0.17 per share, on sales of $304 million
- Northwood pulp mill's $65 million Turbo Generator Condensing turbine project completed and commissioned in March 2019

Financial Results

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

(millions of Canadian dollars, except per share amounts)	Q1 2019	Q4 2018	Q1 2018
Sales	**$ 304.0**	$ 289.7	$ 359.7
Operating income before amortization	**$ 40.4**	$ 36.1	$ 104.3
Operating income	**$ 18.1**	$ 15.6	$ 85.1
Net income	**$ 10.8**	$ 14.2	$ 64.3
Net income per share, basic and diluted	**$ 0.17**	$ 0.21	$ 0.99

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

The Company reported operating income of $18.1 million for the first quarter of 2019, up $2.5 million from the fourth quarter of 2018, as improved production and increased shipments more than offset the impact of lower US-dollar pulp prices to China. Notwithstanding previously announced kiln-related operational disruptions at two of the Company's Northern Bleach Softwood Kraft ("NBSK") pulp mills in January and challenges associated with severe winter weather, pulp production was up 22% from the previous quarter, largely as a result of significant downtime taken at the Company's Northwood pulp mill in the comparative period to perform repairs to one of its two recovery boilers.

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

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

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

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

Operating income in the Company's paper segment was $5.9 million, up $2.4 million from the fourth quarter of 2018. The increase largely reflected lower slush pulp costs linked to lower Canadian dollar NBSK pulp prices and, to a lesser extent, improved paper unit sales realizations.

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

Commenting on the Company's first quarter of 2019 results, CPPI's Chief Executive Officer, Don Kayne said, "While our financial results showed a modest improvement compared to the last quarter of 2018, they also reflected several operational, weather and market-related challenges during the period. With Intercontinental pulp mill's scheduled shutdown now behind us, we are focused on increasing our productivity and overall financial performance going forward."

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

On May 1, 2019, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on May 21, 2019 to the shareholders of record on May 14, 2019.

Additional Information and Conference Call

A conference call to discuss the first quarter's financial and operating results will be held on Thursday, May 2, 2019 at 8:00 AM Pacific time. To participate in the call, please dial Toll-Free 1-888-390-0546. For instant replay access until May 16, 2019, please dial Toll-Free 1-888-390-0541 and enter participant pass code 594778#. The conference call will be webcast live and will be available at www.canfor.com. This news release, the attached financial statements and a presentation used during the conference call can be accessed via the Company's website at http://www.canfor.com/investor-relations/webcasts.

Non-IFRS Measures and Forward Looking Statements

Operating Income before Amortization and Net Income per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. Refer to the Company's Annual Management's Discussion and Analysis for a reconciliation of Operating Income before Amortization to Operating Income reported in accordance with IFRS.

Forward Looking Statements

Certain statements in this press release constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements.

Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

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

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

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

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

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

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

Forward Looking Statements

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

FIRST QUARTER 2019 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q1 2019	Q4 2018	Q1 2018
Operating income (loss) by segment:			
Pulp	**$ 15.5**	$ 15.2	$ 86.4
Paper	**$ 5.9**	$ 3.5	$ 2.9
Unallocated	**$ (3.3)**	$ (3.1)	$ (4.2)
Total operating income	**$ 18.1**	$ 15.6	$ 85.1
Add: Amortization[1]	**$ 22.3**	$ 20.5	$ 19.2
Total operating income before amortization	**$ 40.4**	$ 36.1	$ 104.3
Add (deduct):			
Working capital movements	**$ (34.1)**	$ (9.4)	$ (22.2)
Defined benefit pension plan contributions, net	**$ (1.1)**	$ (1.6)	$ (1.7)
Income taxes paid, net	**$ (4.0)**	$ (36.3)	$ (19.1)
Other operating cash flows, net	**$ (0.6)**	$ 6.3	$ 5.8
Cash from operating activities	**$ 0.6**	$ (4.9)	$ 67.1
Add (deduct):			
Payment of lease obligations[2]	**$ (0.2)**	$ -	$ -
Dividends paid	**$ (4.1)**	$ (150.9)	$ (4.1)
Finance expenses paid	**$ (0.7)**	$ (0.8)	$ (0.7)
Capital additions, net	**$ (25.5)**	$ (42.5)	$ (19.8)
Share purchases	**$ -**	$ -	$ (0.1)
Other, net	**$ -**	$ 0.6	$ 0.3
Change in cash / operating loans	**$ (29.9)**	$ (198.5)	$ 42.7
ROIC – Consolidated period-to-date[3]	**2.4%**	2.0%	12.9%
Average exchange rate (US$ per C$1.00)[4]	**$ 0.752**	$ 0.758	$ 0.791

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

1 Amortization includes amortization of certain capitalized major maintenance costs.

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

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

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

The Company reported operating income of $18.1 million for the first quarter of 2019, up $2.5 million from the fourth quarter of 2018 as improved production and increased shipments more than offset the impact of lower US-dollar pulp prices to China. Notwithstanding previously announced kiln-related operational disruptions at two of the Company's Northern Bleach Softwood Kraft ("NBSK") pulp mills in January and challenges associated with severe winter weather, pulp production was up 22% from the previous quarter, largely as a result of significant downtime taken at the Company's Northwood pulp mill in the comparative period to perform repairs to one of its two recovery boilers.

Compared to the first quarter of 2018, operating income was down $67.0 million reflecting significantly lower average NBSK pulp and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") US-dollar pricing to China, combined with higher fibre costs (in part relating to whole log chips) and to a lesser extent the aforementioned operational challenges in the first quarter of 2019, partially offset by a 4 cent, or 5%, weaker Canadian Dollar.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)		**Q1 2019**		Q4 2018		Q1 2018
Sales	**$**	**255.1**	$	243.5	$	317.5
Operating income before amortization[5]	**$**	**36.9**	$	34.7	$	104.5
Operating income	**$**	**15.5**	$	15.2	$	86.4
Average NBSK pulp price delivered to China – US$[6]	**$**	**710**	$	805	$	910
Average NBSK pulp price delivered to China – Cdn$[6]	**$**	**944**	$	1,062	$	1,150
Production – pulp (000 mt)		**274.2**		223.9		311.7
Shipments – pulp (000 mt)		**258.8**		230.7		310.0

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

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

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

Markets

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

Softwood pulp producer inventories at the end of March 2019 were well above the balanced range at 37 days of supply but were down slightly from December 2018[7] (Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range). Global shipments of bleached softwood pulp increased 3.5%[8], for the first three months of 2019 compared to the first three months of 2018, driven primarily by an 8.5% increase in shipments to China. This represents the first increase since May 2018 and was in contrast to global shipments of bleached hardwood pulp, which modestly declined through the quarter and had 59 days of supply in inventories at the end of March 2019.

Sales

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

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

Compared to the first quarter of 2018, the average US-dollar NBSK list price to China was down US$200 per tonne, or 22%. Notwithstanding a significant decline in China pricing, the Company's average NBSK unit sales realizations

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

[8] As reported PPPC statistics.

saw a slight decrease reflecting the benefit of improved US-dollar prices to North America and Europe, combined with the weaker Canadian dollar in the current quarter. Average BCTMP unit sales realizations showed a sharp decline compared to the first quarter of 2018 reflecting lower BCTMP pricing in the current quarter, partially offset by the weaker Canadian dollar.

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

Operations

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

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

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars, unless otherwise noted)	**Q1 2019**	Q4 2018	Q1 2018
Sales	**$ 48.5**	$ 46.1	$ 42.0
Operating income before amortization[9]	**$ 6.8**	$ 4.4	$ 4.0
Operating income	**$ 5.9**	$ 3.5	$ 2.9
Production – paper (000 mt)	**35.0**	35.6	34.3
Shipments – paper (000 mt)	**32.7**	32.0	32.0

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

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

Markets

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

Sales

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

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

Operations

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

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)	Q1 2019	Q4 2018	Q1 2018
Corporate costs	**$ (3.3)**	$ (3.1)	$ (4.2)
Finance expense, net	**$ (1.5)**	$ (0.9)	$ (1.2)
Other income (expense), net	**$ (1.9)**	$ 4.8	$ 3.8

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

Corporate costs were $3.3 million for the first quarter of 2019, broadly in line with the previous quarter and down $0.9 million from the first quarter of 2018, primarily reflecting costs associated with organizational reductions in senior management in the latter period.

Net finance expense for the first quarter of 2019, at $1.5 million, was up $0.6 million and $0.3 million from the fourth quarter of 2018 and the first quarter of 2018, respectively, for the most part reflecting lower interest earned as a result of reduced cash balances in the current quarter.

Other expense of $1.9 million in the first quarter of 2019 principally reflected unfavourable foreign exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income (Loss)

In the first quarter of 2019, the Company recorded an after-tax loss of $2.5 million related to changes in the valuation of the Company's employee future benefits plans, largely reflecting a 0.3% decrease in the discount rate used to value the employee future benefit plans. This compared to an after-tax gain of $1.1 million in the fourth quarter of 2018 and an after-tax gain of $2.4 million recorded in the first quarter of 2018, largely reflecting changes in the discount rates used to value the employee future benefit plans offset by lower than anticipated returns on plan assets.

During the fourth quarter of 2018, the Company purchased $8.9 million of annuities through its defined benefit plans in order to mitigate its exposure to the future volatility fluctuations in the related pension obligations. At purchase of these annuities, transaction costs of $0.7 million were recognized in Other Comprehensive Income principally reflecting the difference in the annuity rate as compared to the discount rate used to value the pension obligations on a going concern basis.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)		Q1 2019		Q4 2018		Q1 2018
Increase (decrease) in cash and cash equivalents	**$**	**(6.9)**	$	(198.5)	$	42.7
Operating activities	**$**	**0.6**	$	(4.9)	$	67.1
Financing activities	**$**	**18.0**	$	(151.7)	$	(4.9)
Investing activities	**$**	**(25.5)**	$	(41.9)	$	(19.5)
Ratio of current assets to current liabilities		**2.0 : 1**		1.9 : 1		2.5 : 1
Net debt to capitalization[10]		**3.7%**		(1.2%)		(23.2)%
ROIC – Consolidated period-to-date		**2.4%**		2.0%		12.9%

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

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

Changes in Financial Position

Cash generated from operating activities in the first quarter of 2019 was $0.6 million, up $5.5 million from the fourth quarter of 2018 and down $66.5 million from the first quarter of 2018. The increase in operating cash flows compared to the fourth quarter of 2018 largely reflected lower tax installment payments, offset by unfavourable movements in non-cash working capital balances that included reduced accounts payable and increased accounts receivable balances, the latter reflecting proportionately higher shipments towards the end of the current quarter. Compared to the first quarter of 2018, the decrease in operating cash flows primarily reflected lower cash earnings which more than offset lower income tax payments in the current period, and, to a lesser extent, unfavourable changes in non-cash working capital in the current period.

Financing activities in the first quarter of 2019 provided net cash of $18.0 million compared to cash used of $151.7 million in the fourth quarter of 2018 and cash used of $4.9 million in the first quarter of 2018. Cash from financing activities in the current quarter principally related to a $23.0 million draw down of the Company's principal operating loan facility, offset in part by a quarterly dividend of $4.1 million ($0.0625 per common share). Financing activities in the fourth quarter of 2018 included the payment of a special dividend ($2.25 per common share) in addition to the quarterly dividend, combined, totaling $150.9 million.

Cash used for investing activities of $25.5 million in the current quarter primarily related to maintenance-of-business capital, combined with capital expenditures associated with the ongoing development of the Company's new ERP software system and the completion of its previously announced energy project at the Northwood pulp mill which commenced operations in the first quarter of 2019.

Liquidity and Financial Requirements

At March 31, 2019, the Company had a $110 million unsecured operating loan facility, with $23.0 million drawn in the current quarter and $13.0 million reserved for several standby letters of credit. At the end of the quarter, the Company had $74.0 million available and undrawn on its operating loan facility.

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

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

On March 4, 2019, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,262,537 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2019. The renewed normal course issuer bid is set to expire on March 6, 2020. The Company did not purchase any common shares during the first quarter of 2019. As at March 31, 2019 and May 1, 2019, there were 65,250,759 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%. The Company may purchase shares through the balance of 2019 subject to the terms of the normal course issuer bid.

Dividends

On May 1, 2019, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on May 21, 2019 to the shareholders of record on May 14, 2019.

OUTLOOK

Pulp Markets

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

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

Paper Markets

Bleached kraft paper demand is anticipated to hold relatively stable through the second quarter.

A maintenance outage is currently planned at the Company's paper machine during the third quarter of 2019 with a projected 4,000 tonnes of reduced paper production.

OUTSTANDING SHARES

At May 1, 2019 there were 65,250,759 common shares of the Company outstanding.

CRITICAL ACCOUNTING ESTIMATES

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

ADOPTION OF NEW ACCOUNTING STANDARDS

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

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

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

On adoption of IFRS 16, the Company recognized $3.3 million of ROU assets and $3.4 million of lease obligations, with the difference of $0.1 million recognized in retained earnings.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

RISKS AND UNCERTAINTIES

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Sales and income (millions of Canadian dollars)								
Sales	**$ 304.0**	$ 289.7	$ 328.5	$ 396.4	$ 359.7	$ 322.9	$ 284.9	$ 280.9
Operating income before amortization	**$ 40.4**	$ 36.1	$ 80.7	$ 105.1	$ 104.3	$ 85.6	$ 39.4	$ 50.0
Operating income	**$ 18.1**	$ 15.6	$ 60.5	$ 85.4	$ 85.1	$ 66.8	$ 21.1	$ 31.5
Net income	**$ 10.8**	$ 14.2	$ 42.9	$ 63.0	$ 64.3	$ 45.2	$ 12.6	$ 20.2
Per common share (Canadian dollars)								
Net income – basic and diluted	**$ 0.17**	$ 0.21	$ 0.66	$ 0.97	$ 0.99	$ 0.69	$ 0.19	$ 0.31
Book value[11]	**$ 9.21**	$ 9.14	$ 11.22	$ 10.62	$ 9.72	$ 8.76	$ 7.78	$ 7.63
Dividends declared[12]	**$ 0.0625**	$ 0.0625	$ 2.3125	$ 0.0625	$ 0.0625	$ 0.0625	$ 0.0625	$ 0.0625
Common Share Repurchases								
Share volume repurchased (000 shares)	**-**	-	-	-	-	8	568	608
Shares repurchased (millions of Canadian dollars)	**$ -**	$ -	$ -	$ -	$ -	$ 0.1	$ 7.2	$ 7.5
Statistics								
Pulp shipments (000 mt)	**258.8**	230.7	262.4	328.6	310.0	299.7	303.3	276.3
Paper shipments (000 mt)	**32.7**	32.0	33.6	32.6	32.0	35.8	34.0	35.5
Average exchange rate – US$/Cdn$	**$ 0.752**	$ 0.758	$ 0.765	$ 0.774	$ 0.791	$ 0.786	$ 0.798	$ 0.744
Average NBSK pulp list price delivered to China (US$)	**$ 710**	$ 805	$ 887	$ 910	$ 910	$ 863	$ 670	$ 670

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

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

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

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

After-tax impact (millions of Canadian dollars, except for per share amounts)	**Q1 2019**	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Net income, as reported	**$ 10.8**	$ 14.2	$ 42.9	$ 63.0	$ 64.3	$ 45.2	$ 12.6	$ 20.2
Change in substantively enacted tax legislation	**$ -**	$ -	$ -	$ -	$ -	$ 2.8	$ -	$ -
Net impact of above items	**$ -**	$ -	$ -	$ -	$ -	$ 2.8	$ -	$ -
Adjusted net income	**$ 10.8**	$ 14.2	$ 42.9	$ 63.0	$ 64.3	$ 48.0	$ 12.6	$ 20.2
Net income per share (EPS), as reported	**$ 0.17**	$ 0.21	$ 0.66	$ 0.97	$ 0.99	$ 0.69	$ 0.19	$ 0.31
Net impact of above items per share	**$ -**	$ -	$ -	$ -	$ -	$ 0.04	$ -	$ -
Adjusted net income per share	**$ 0.17**	$ 0.21	$ 0.66	$ 0.97	$ 0.99	$ 0.73	$ 0.19	$ 0.31

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at March 31, 2019**		As at December 31, 2018
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**-**	$	6.9
Accounts receivable - Trade		**114.2**		107.6
- Other		**12.1**		11.4
Income taxes receivable		**7.9**		5.4
Inventories (Note 2)		**213.0**		207.1
Prepaid expenses and other		**18.8**		11.9
Total current assets		**366.0**		350.3
Property, plant and equipment and intangible assets		**570.0**		578.2
Right-of-use assets (Note 3(a))		**3.1**		-
Other long-term assets		**3.0**		3.5
Total assets	**$**	**942.1**	$	932.0
LIABILITIES				
Current liabilities				
Operating loan (Note 4)	**$**	**23.0**	$	-
Accounts payable and accrued liabilities		**156.3**		182.0
Current portion of lease obligations (Note 3(b))		**1.0**		-
Total current liabilities		**180.3**		182.0
Lease obligations (Note 3(b))		**2.3**		-
Retirement benefit obligations (Note 5)		**84.1**		80.0
Other long-term provisions		**6.4**		6.6
Deferred income taxes, net		**68.3**		66.8
Total liabilities	**$**	**341.4**	$	335.4
EQUITY				
Share capital	**$**	**480.9**	$	480.9
Retained earnings		**119.8**		115.7
Total equity	**$**	**600.7**	$	596.6
Total liabilities and equity	**$**	**942.1**	$	932.0

Subsequent Event (Note 13)

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

APPROVED BY THE BOARD

"S.E. Bracken-Horrocks"

Director, S.E. Bracken-Horrocks

"C.A. Pinette"

Director, C.A. Pinette

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended March 31, 2019	2018
Sales	**$ 304.0**	$ 359.7
Costs and expenses		
Manufacturing and product costs	**219.7**	208.8
Freight and other distribution costs	**36.0**	38.1
Amortization	**22.3**	19.2
Selling and administration costs	**7.9**	8.5
	285.9	274.6
Operating income	**18.1**	85.1
Finance expense, net	**(1.5)**	(1.2)
Other income (expense), net	**(1.9)**	3.8
Net income before income taxes	**14.7**	87.7
Income tax expense (Note 6)	**(3.9)**	(23.4)
Net income	**$ 10.8**	$ 64.3
Net income per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 7)	**$ 0.17**	$ 0.99

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

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

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2019**	2018
Net income	**$ 10.8**	$ 64.3
Other comprehensive income (loss)		
Items that will not be recycled through net income:		
Defined benefit plan actuarial gains (losses) (Note 5)	**(3.4)**	3.3
Income tax recovery (expense) on defined benefit plan actuarial losses/gains (Note 6)	**0.9**	(0.9)
Other comprehensive income (loss), net of tax	**(2.5)**	2.4
Total comprehensive income	**$ 8.3**	$ 66.7

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2019**	2018
Share capital		
Balance at beginning of period	**$ 480.9**	$ 480.9
Balance at end of period	**$ 480.9**	$ 480.9
Retained earnings		
Balance at beginning of period	**$ 115.7**	$ 90.5
Net income	**10.8**	64.3
Defined benefit plan actuarial gains (losses), net of tax	**(2.5)**	2.4
Dividends declared	**(4.1)**	(4.1)
Impact of change in accounting policy (Notes 1 and 3)	**(0.1)**	-
Balance at end of period	**$ 119.8**	$ 153.1
Total equity	**$ 600.7**	$ 634.0

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2019	2018
Cash generated from (used in):		
Operating activities		
Net income	**$ 10.8**	$ 64.3
Items not affecting cash:		
Amortization	**22.3**	19.2
Income tax expense (Note 6)	**3.9**	23.4
Employee future benefits expense	**1.0**	1.1
Finance expense, net	**1.5**	1.2
Other, net	**0.3**	0.9
Defined benefit plan contributions, net	**(1.1)**	(1.7)
Income taxes paid, net	**(4.0)**	(19.1)
	34.7	89.3
Net change in non-cash working capital (Note 8)	**(34.1)**	(22.2)
	0.6	67.1
Financing activities		
Payment of lease obligations (Note 3(b))	**(0.2)**	-
Increase in operating loan (Note 4)	**23.0**	-
Finance expenses paid	**(0.7)**	(0.7)
Dividends paid	**(4.1)**	(4.1)
Share purchases	**-**	(0.1)
	18.0	(4.9)
Investing activities		
Additions to property, plant and equipment and intangible assets, net	**(25.5)**	(19.8)
Other, net	**-**	0.3
	(25.5)	(19.5)
Increase (decrease) in cash and cash equivalents*	**(6.9)**	42.7
Cash and cash equivalents at beginning of period*	**6.9**	76.7
Cash and cash equivalents at end of period*	**$ -**	$ 119.4

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Pulp Products Inc. ("CPPI") and its subsidiary entities, hereinafter referred to as "CPPI" or "the Company." At March 31, 2019 and May 1, 2019, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI.

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

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

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

Change in Accounting Policy

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

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

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

The impact of transition is outlined under Note 3, with changes in accounting policies outlined below.

Policy applicable from January 1, 2019

Lease Definition

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

Measurement of Right-of-Use Assets and Lease Obligations

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

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

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

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

Recognition Exemptions

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

2. Inventories

(millions of Canadian dollars, unaudited)		**As at March 31, 2019**		As at December 31, 2018
Pulp	**$**	**91.5**	$	83.2
Paper		**24.7**		22.2
Wood chips and logs		**42.2**		48.3
Materials and supplies		**54.6**		53.4
	$	**213.0**	$	207.1

Inventory balances are stated after inventory write-downs from cost to net realizable value. Inventory write-downs at March 31, 2019 totaled $0.3 million (December 31, 2018 – nil).

3. Leases

The Company's leased assets include land, buildings, vehicles, machinery and equipment. Effective January 1, 2019, the Company adopted IFRS 16 as outlined in Note 1, recognizing $3.3 million of ROU assets and $3.4 million of lease obligations, with the difference of $0.1 million recognized in retained earnings.

The following table reconciles the Company's lease commitments disclosed in the consolidated financial statements as at and for the year ended December 31, 2018, to the lease obligations recognized on initial application of IFRS 16 at January 1, 2019.

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

Lease obligations were measured at the present value of remaining lease payments at the transition date, discounted at the Company's incremental borrowing rate. The weighted average incremental borrowing rate applied at January 1, 2019 was 4.2%.

(a) Right-of-Use Assets

(millions of Canadian dollars, unaudited)		Land		Machinery and equipment		Other facilities and equipment		Total
Cost								
Balance at January 1, 2019	$	0.1	$	5.5	$	1.4	$	7.0
Additions		-		-		-		-
Balance at March 31, 2019	$	0.1	$	5.5	$	1.4	$	7.0
Amortization								
Balance at January 1, 2019	$	-	$	(2.7)	$	(1.0)	$	(3.7)
Amortization		-		(0.1)		(0.1)		(0.2)
Balance at March 31, 2019	$	-	$	(2.8)	$	(1.1)	$	(3.9)
Carrying Amounts								
At January 1, 2019	$	0.1	$	2.8	$	0.4	$	3.3
At March 31, 2019	**$**	**0.1**	**$**	**2.7**	**$**	**0.3**	**$**	**3.1**

(b) Lease Obligations

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

(millions of Canadian dollars, unaudited)		**As at March 31, 2019**
Within one year	**$**	**1.1**
Between one and five years		**2.4**
Beyond five years		**0.1**
Total undiscounted lease obligations	**$**	**3.6**

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

(millions of Canadian dollars, unaudited)		**As at March 31, 2019**
Current	**$**	**1.0**
Non-Current		**2.3**
Total discounted lease obligations	**$**	**3.3**

Interest expense on lease obligations for the three months ended March 31, 2019 was nominal and is included in finance expense.

Operating lease expenses relating to short-term and low-value leases not included in the measurement of lease obligations for the three months ended March 31, 2019 was $0.3 million.

Total cash outflows for leases was $0.5 million, including $0.3 million for short-term and low-value leases during the three months ended March 31, 2019.

4. Operating Loan

(millions of Canadian dollars, unaudited)		**As at March 31, 2019**		As at December 31, 2018
Operating loan facility	**$**	**110.0**	$	110.0
Letters of credit		**(13.0)**		(11.1)
Operating loan facility drawn		**(23.0)**		-
Total available operating loan facility	**$**	**74.0**	$	98.9

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

The facility has certain financial covenants including a covenant based on maximum debt to total capitalization of the Company. At March 31, 2019, the Company was in compliance with all covenants relating to its operating loans.

5. Employee Future Benefits

For the three months ended March 31, 2019, defined benefit plan actuarial losses of $3.4 million (before tax) were recognized in other comprehensive income, principally reflecting a lower discount rate used to value the net defined benefit plan obligations, offset in part by higher than anticipated returns generated on plan assets.

For the three months ended March 31, 2018, defined benefit plan actuarial gains of $3.3 million (before tax) were recognized in other comprehensive income, principally reflecting a higher discount rate used to value the defined benefit plan obligations, offset in part by lower than anticipated returns generated on plan assets.

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

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

6. Income Taxes

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2019**	2018
Current	**$ (1.5)**	$ (25.6)
Deferred	**(2.4)**	2.2
Income tax expense	**$ (3.9)**	$ (23.4)

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

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2019**	2018
Income tax expense at statutory rate – 27% (2018 – 27%)	**$ (4.1)**	$ (23.7)
Add: Entities with different income tax rates and other tax adjustments	**0.2**	0.3
Income tax expense	**$ (3.9)**	$ (23.4)

In addition, a tax recovery of $0.9 million related to actuarial losses on the Company's defined benefit plans was recorded in other comprehensive income for the three months ended March 31, 2019 (three months ended March 31, 2018 - expense of $0.9 million related to actuarial gains).

7. Earnings per Share and Normal Course Issuer Bid

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

	3 months ended March 31, **2019**	2018
Weighted average number of common shares	**65,250,759**	65,250,775

On March 4, 2019, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,262,537 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2019. The renewed normal course issuer bid is set to expire on March 6, 2020.

As at March 31, 2019 and May 1, 2019, there were 65,250,759 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%.

8. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)		3 months ended March 31, **2019**		2018
Accounts receivable	**$**	**(10.9)**	$	(21.4)
Inventories		**(5.9)**		(4.6)
Prepaid expenses and other		**(6.4)**		(2.5)
Accounts payable and accrued liabilities		**(10.9)**		6.3
Net increase in non-cash working capital	**$**	**(34.1)**	$	(22.2)

9. Segment Information

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

(millions of Canadian dollars, unaudited)		Pulp		Paper		Unallocated		Elimination		Consolidated
3 months ended March 31, 2019										
Sales from contracts with customers	**$**	**255.1**	**$**	**48.5**	**$**	**0.4**	**$**	**-**	**$**	**304.0**
Sales to other segments		**28.3**		**-**		**-**		**(28.3)**		**-**
Operating income (loss)		**15.5**		**5.9**		**(3.3)**		**-**		**18.1**
Amortization		**21.4**		**0.9**		**-**		**-**		**22.3**
Capital expenditures[1]		**24.0**		**1.1**		**0.4**		**-**		**25.5**
Identifiable assets		**853.6**		**64.9**		**23.6**		**-**		**942.1**
3 months ended March 31, 2018										
Sales from contracts with customers	$	317.5	$	42.0	$	0.2	$	-	$	359.7
Sales to other segments		28.9		-		-		(28.9)		-
Operating income (loss)		86.4		2.9		(4.2)		-		85.1
Amortization		18.1		1.1		-		-		19.2
Capital expenditures[1]		18.5		1.3		-		-		19.8
Identifiable assets		774.2		58.1		130.4		-		962.7

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

Geographic information

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

(millions of Canadian dollars, unaudited)		3 months ended March 31, **2019**		2018
Sales by location of customer				
Canada	**$**	**19.6**	$	20.1
Asia		**161.5**		236.2
United States		**88.0**		74.7
Europe		**14.5**		13.6
Other		**20.4**		15.1
	$	**304.0**	$	359.7

10. Related Party Transactions

For the three months ended March 31, 2019, the Company depended on Canfor to provide approximately 69% (three months ended March 31, 2018 - 67%) of its fibre supply as well as certain key business and administrative services. As a result of these relationships the Company considers its operations to be dependent on its ongoing relationship with Canfor. The transactions with Canfor are consistent with the transactions described in the December 31, 2018 audited consolidated financial statements of CPPI and are based on agreed upon amounts between the parties.

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

		3 months ended March 31,		
(millions of Canadian dollars, unaudited)		**2019**		2018
Transactions				
Purchase of wood chips and other	**$**	**70.1**	$	53.1

(millions of Canadian dollars, unaudited)		**As at March 31, 2019**		As at December 31, 2018
Balance Sheet				
Included in accounts payable and accrued liabilities	**$**	**26.2**	$	31.6

11. Licella Pulp Joint Venture

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

Under IFRS 11, *Joint Arrangements*, the joint venture is classified as a joint operation and CPPI recognizes its assets, liabilities and transactions, including its share of those incurred jointly, in its financial statements. For the three months ended March 31, 2019, the Company's share of the joint venture's expenses was $1.1 million (three months ended March 31, 2018 - $0.5 million), which have been recognized in manufacturing and product costs. The Company is required to contribute the first $20.0 million of any funding requirements, including cash and non-cash contributions, to the joint venture, of which $4.9 million has been contributed since commencement of the joint venture to March 31, 2019.

In March 2017, the Canadian Federal Government through its Sustainable Development Technology Canada program announced the funding over several years of approximately $13.2 million, contingent on future spending. Advance funding of $1.9 million was received in April 2018 for the period from October 1, 2017 through to the time at which the terms of funding are met. Of this amount, $0.3 million has been recognized as an offset to manufacturing and product costs for the three months ended March 31, 2019 with $0.9 million included in accounts payable and accrued liabilities at March 31, 2019.

12. Contingencies

In the ordinary course of its business activities, the Company may be subject to, or enter into, legal actions and claims with customers, unions, suppliers or others. During the three months ended March 31, 2019, the Company settled an outstanding claim with one of its suppliers and recognized a recovery of $4.5 million in manufacturing and product costs, offsetting previously incurred legal costs of $1.4 million which were expensed in the period incurred.

In circumstances where the Company is not able to determine the outcome of a legal action and claim, no amount is recognized in the consolidated financial statements, with an amount accrued only when a reliable estimate of the obligation can be made. Although there can be no assurance as to the disposition of a legal action and claim, it is the opinion of the Company's management, based upon the information available at this time, that the expected outcome of a legal action and claim, individually or in aggregate, is unlikely to have a material adverse effect on the operating results and financial condition of the Company as a whole.

13. Subsequent Event

On May 1, 2019 the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on May 21, 2019, to the shareholders of record on May 14, 2019.