News Release

Canfor Pulp Products Inc.

FOR IMMEDIATE RELEASE

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

October 23, 2019 - Vancouver, B.C. - Canfor Pulp Products Inc. ("CPPI") (TSX: CFX) today reported third quarter 2019 results and its quarterly dividend:

Overview

- Third quarter of 2019 reported operating loss of $44 million
- Net loss of $32 million, or $0.50 per share

Financial Results

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

(millions of Canadian dollars, except per share amounts)	Q3 2019	Q2 2019	YTD 2019	Q3 2018	YTD 2018
Sales	**$ 216.9**	$ 319.5	**$ 840.4**	$ 328.5	$ 1,084.6
Reported operating income (loss) before amortization	**$ (20.3)**	$ 41.7	**$ 61.8**	$ 80.7	$ 290.1
Reported operating income (loss)	**$ (44.0)**	$ 18.4	**$ (7.5)**	$ 60.5	$ 231.0
Net income (loss)	**$ (32.4)**	$ 10.6	**$ (11.0)**	$ 42.9	$ 170.2
Net income (loss) per share, basic and diluted	**$ (0.50)**	$ 0.16	**$ (0.17)**	$ 0.66	$ 2.61

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.
The second quarter of 2019 results included an inventory write-down expense of $13.4 million.

Reflecting weak global pulp market conditions, significant market-related downtime and fibre supply disruptions from British Columbia ("BC") Interior sawmill curtailments, the Company reported an operating loss of $44.0 million for the third quarter of 2019, down $62.4 million from the operating income of $18.4 million reported for second quarter of 2019. Northern Bleached Softwood Kraft ("NBSK") pulp and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") prices saw significant declines through the quarter, driven by weak global softwood pulp demand in combination with elevated global pulp inventory levels. In response to the deteriorating pulp market conditions and fibre supply disruptions, the Company took phased summer curtailments at its Intercontinental, Northwood and Prince George NBSK pulp mills in Prince George, BC, as well as at its BCTMP mill in Taylor, BC. Combined, the summer curtailments reduced pulp production in the current quarter by 75,000 tonnes of NSBK pulp and 60,000 tonnes of BCTMP.

Global pulp markets weakened for a third straight quarter with the combination of tepid demand and inventory oversupply, particularly in China and Europe, significantly weighing on global pulp prices. During the current quarter, the US-dollar NBSK pulp list price to China declined to its lowest level in over 10 years, averaging US$585 per tonne, down US$68 per tonne, or 10%, from the previous quarter. Prices to other global regions, including North America and Europe, also experienced similar decreases in the current quarter. As a result of weakening pulp market conditions and pricing, average NBSK pulp and BCTMP unit sales realizations were down significantly compared to the second quarter of 2019.

Energy revenues increased in the current quarter as improved power generation, driven by Northwood's new Turbo Generator Condensing turbine, and higher energy prices, more than offset the decrease in operating days associated with the aforementioned downtime.

Pulp production was 174,000 tonnes, down 126,000 tonnes, or 42%, from the previous quarter, largely reflecting the quarter-over-quarter impact of downtime, which, in the current quarter, principally related to the aforementioned production curtailments at all of the Company's pulp mills. The completion of a scheduled maintenance outage at the Company's Prince George pulp mill in the current quarter further reduced pulp production by 4,000 tonnes. In the second quarter of 2019, the Company completed scheduled maintenance outages at the Intercontinental NBSK pulp and Taylor BCTMP mills which reduced pulp production by 11,000 tonnes and 6,000 tonnes, respectively.

Pulp shipments were 213,000 tonnes, down 75,000 tonnes, or 26%, from the previous quarter reflecting the decrease in pulp production, offset in part by a drawdown of inventory in the current quarter.

Pulp unit manufacturing costs were significantly higher than the previous quarter, principally reflecting reduced production. 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 available higher-cost whole log chips.

Operating income in the Company's paper segment was $3.9 million, down $4.2 million from the second quarter of 2019, as declining paper unit sales realizations and reduced paper production, as a result of scheduled maintenance downtime, more than offset lower slush pulp costs (linked to falling Canadian dollar NBSK pulp market prices).

Looking forward, global softwood kraft pulp markets are projected to show signs of a modest recovery in the fourth quarter of 2019 with consumers replenishing inventories following the seasonally slower summer months. It is anticipated that global pulp pricing will slowly improve through the balance of 2019 and into 2020 as global inventories move towards a more balanced range. Given the impacts of recently announced sawmill curtailments and closures in the BC Interior, fibre costs are projected to remain under pressure given the limited supply of incremental pulp logs. Results in the fourth quarter of 2019 will include a one week curtailment at the Company's Prince George NBSK pulp mill and paper machine at the beginning of October, a continuation from the third quarter.

Bleached kraft paper demand is anticipated to remain relatively weak through the balance of the year, with prices projected to remain under pressure in the fourth quarter before stabilizing in 2020.

Commenting on the Company's third quarter of 2019 results and current market conditions, CPPI's Chief Executive Officer, Don Kayne said, "This was an extremely difficult quarter for our pulp business and our employees, as we managed challenging pulp market conditions and made difficult operating decisions due to the reduced fibre supply in BC driven by the industry-wide sawmill curtailments. As a result of the downtime taken during the third quarter, however, we look to be well placed to run without further disruption through the balance of the year and into 2020, when we anticipate market conditions and prices to improve."

On October 23, 2019, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on November 12, 2019 to the shareholders of record on November 5, 2019.

Additional Information and Conference Call

A conference call to discuss the third quarter's financial and operating results will be held on Thursday, October 24, 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 November 7, 2019, please dial Toll-Free 1-888-390-0541 and enter participant pass code 315653#. The conference call will be webcast live and will be available at www.canfor.com. This news release, 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 (Loss) before Amortization and Adjusted Operating Income (Loss) 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 (Loss) reported in accordance with IFRS to Operating Income (Loss) before Amortization and to Adjusted Operating Income (Loss).

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.
Third 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 September 30, 2019 relative to the quarters ended June 30, 2019 and September 30, 2018, and the financial position of the Company at September 30, 2019. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended, September 30, 2019 and 2018, as well as the 2018 annual MD&A and the 2018 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2018 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income (Loss) before Amortization and Adjusted Operating Income (Loss) 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 (Loss) (calculated as Net Income (Loss) less specific items affecting comparability with prior periods) and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization, Adjusted Operating Income (Loss), Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share are not generally accepted earnings measures and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, CPPI's Operating Income (Loss) before Amortization, Adjusted Operating Income (Loss), Adjusted Net Income (Loss) and Adjusted 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 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 third 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 October 23, 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.

THIRD QUARTER 2019 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q3 2019	Q2 2019	YTD 2019	Q3 2018	YTD 2018
Operating income (loss) by segment:					
Pulp	**$ (45.5)**	$ 12.9	**$ (17.1)**	$ 60.7	$ 233.7
Paper	**$ 3.9**	$ 8.1	**$ 17.9**	$ 3.1	$ 7.5
Unallocated	**$ (2.4)**	$ (2.6)	**$ (8.3)**	$ (3.3)	$ (10.2)
Total operating income (loss)	**$ (44.0)**	$ 18.4	**$ (7.5)**	$ 60.5	$ 231.0
Add: Amortization[1]	**$ 23.7**	$ 23.3	**$ 69.3**	$ 20.2	$ 59.1
Total operating income (loss) before amortization	**$ (20.3)**	$ 41.7	**$ 61.8**	$ 80.7	$ 290.1
Add (deduct):					
Working capital movements	**$ 22.2**	$ 13.4	**$ 1.5**	$ 13.7	$ (16.2)
Defined benefit plan contributions, net	**$ (1.5)**	$ (1.4)	**$ (4.0)**	$ (1.6)	$ (5.0)
Income taxes received (paid)	**$ (0.1)**	$ (0.4)	**$ (4.5)**	$ (35.2)	$ (54.1)
Other operating cash flows, net	**$ 1.0**	$ (1.0)	**$ (0.6)**	$ (2.5)	$ 5.3
Cash from operating activities	**$ 1.3**	$ 52.3	**$ 54.2**	$ 55.1	$ 220.1
Add (deduct):					
Payment of lease obligations[2]	**$ (0.4)**	$ (0.2)	**$ (0.8)**	$ -	$ -
Dividends paid	**$ (4.1)**	$ (4.1)	**$ (12.3)**	$ (4.1)	$ (12.3)
Finance expenses paid	**$ (1.0)**	$ (1.0)	**$ (2.7)**	$ (0.8)	$ (2.5)
Capital additions, net	**$ (26.0)**	$ (24.4)	**$ (75.9)**	$ (33.4)	$ (78.0)
Proceeds from long-term debt	**$ 50.0**	$ -	**$ 50.0**	$ -	$ -
Share purchases	**$ (0.2)**	$ -	**$ (0.2)**	$ -	$ (0.1)
Other, net	**$ 0.2**	$ -	**$ 0.2**	$ 0.7	$ 1.5
Change in cash / operating loans	**$ 19.8**	$ 22.6	**$ 12.5**	$ 17.5	$ 128.7
ROIC – Consolidated period-to-date[3]	**(5.7)%**	2.4%	**(1.0)%**	9.0%	34.8%
Average exchange rate (US$ per C$1.00)[4]	**$ 0.757**	$ 0.748	**$ 0.752**	$ 0.765	0.777

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

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

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

[3] Consolidated Return on Invested Capital ("ROIC") is equal to operating income (loss) plus realized gains (losses) on derivative financial instruments (i.e. excluding mark-to-market adjustments), plus other income (expense), 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, and deferred taxes.

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

Reflecting weak global pulp market conditions, significant market-related downtime and fibre supply disruptions from British Columbia ("BC") Interior sawmill curtailments, the Company reported an operating loss of $44.0 million for the third quarter of 2019, down $62.4 million from the operating income of $18.4 million reported for second quarter of 2019. Northern Bleached Softwood Kraft ("NBSK") pulp and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") prices saw significant declines through the quarter, driven by weak global softwood pulp demand in combination with elevated global pulp inventory levels. In response to the deteriorating pulp market conditions and fibre supply disruptions, the Company took phased summer curtailments at its Intercontinental, Northwood and Prince George NBSK pulp mills in Prince George, BC, as well as at its BCTMP mill in Taylor, BC. Combined, the summer curtailments reduced pulp production by 75,000 tonnes of NSBK pulp and 60,000 tonnes of BCTMP.

Compared to the third quarter of 2018, operating results decreased $104.5 million primarily reflecting a substantial decline in global pulp list prices from near record high levels in the comparative period, combined with lower shipment and production volumes due to market and fibre-driven curtailments at all of the Company's operations, partially offset by lower fibre costs (linked to Canadian dollar NBSK pulp sales realizations) in the current quarter.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	Q3 2019	Q2 2019	YTD 2019	Q3 2018	YTD 2018
Sales	**$ 179.8**	$ 270.9	**$ 705.8**	$ 280.4	$ 949.4
Operating income (loss) before amortization[5]	**$ (22.8)**	$ 35.3	**$ 49.4**	$ 79.8	$ 289.5
Operating income (loss)	**$ (45.5)**	$ 12.9	**$ (17.1)**	$ 60.7	$ 233.7
Inventory write-downs	**$ -**	$ 13.4	**$ 13.7**	$ -	$ -
Adjusted operating income (loss)	**$ (45.5)**	$ 26.3	**$ (3.4)**	$ 60.7	$ 233.7
Average NBSK pulp price delivered to China – US$[6]	**$ 585**	$ 653	**$ 649**	$ 887	$ 902
Average NBSK pulp price delivered to China – Cdn$[6]	**$ 773**	$ 873	**$ 863**	$ 1,160	$ 1,162
Production – pulp (000 mt)	**174.3**	299.9	**748.5**	285.3	893.5
Shipments – pulp (000 mt)	**213.3**	288.1	**760.3**	262.4	901.0

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

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

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

Markets

Global pulp markets weakened for a third straight quarter with the combination of tepid demand and inventory oversupply, particularly in China and Europe, significantly weighing on global pulp prices. During the third quarter of 2019, the US-dollar NBSK pulp list price to China declined to its lowest level in over 10 years, averaging US$585 per tonne, down US$68 per tonne, or 10%, from the previous quarter, and down US$302 per tonne, or 34%, compared to the third quarter of 2018. Prices to other global regions, including North America and Europe, also experienced similar decreases when compared to the prior quarter, with the average US-dollar NBSK pulp list price to North America at US$1,170 per tonne, down US$122 per tonne, or 9%, from the previous quarter, and down US$207 per tonne, or 15% from the third quarter of 2018.

Softwood pulp producer inventories at the end of August 2019, while improved from previous months' levels, remained above the balanced range at 37 days of supply[7]; market conditions are generally considered balanced when inventories are in the 27-33 days of supply range. Global shipments of bleached softwood pulp increased 4.1%[8], for the first eight months of 2019 compared to the first eight months of 2018, driven primarily by a 17.4% increase in shipments to China, offset by a 6.5% decrease in shipments to Western Europe. This modest increase was in contrast to global shipments of bleached hardwood pulp, which declined significantly through the first eight months of 2019, with 62 days of supply in inventories at the end of August 2019.

Sales

The Company's pulp shipments for the third quarter of 2019 were 213,000 tonnes, down 75,000 tonnes, or 26%, from the previous quarter and down 49,000 tonnes, or 19%, from the third quarter of 2018. Pulp shipments in the current quarter reflected a 42% and 39% decrease in pulp production when compared to both comparative periods, respectively, offset in part by a drawdown of inventory in the current quarter during the aforementioned curtailments.

Average NBSK pulp unit sales realizations were down significantly compared to the second quarter of 2019, reflecting the deteriorating global pulp market conditions and the US$68 per tonne, or 10%, decline in US-dollar NBSK pulp list pricing to China and a similar decrease in the US-dollar NBSK pulp list pricing to North America. BCTMP sales unit realizations also saw a material decrease, reflecting a sharp decline in US-dollar BCTMP prices.

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

[8] As reported PPPC statistics.

Compared to the third quarter of 2018, the Company's average NBSK pulp unit sales realizations were down considerably, primarily driven by the US$302 per tonne, or 34%, decline in the average US-dollar NBSK pulp list price to China, in part moderated by lower declines in US-dollar prices to North America, and a 1% weaker Canadian dollar in the current quarter. Average BCTMP unit sales realizations also showed a sharp decline compared to the third quarter of 2018, reflecting lower BCTMP US-dollar pricing in the current quarter, which more than offset the slightly weaker Canadian dollar.

Energy revenues increased in the current quarter relative to both comparative periods, as improved power generation, driven by Northwood's new Turbo Generator Condensing turbine, and higher energy prices in the current quarter, more than offset the decrease in operating days associated with the aforementioned downtime.

Operations

Pulp production was 174,000 tonnes for the third quarter of 2019, down 126,000 tonnes, or 42%, from the previous quarter, and down 111,000 tonnes or 39% from the third quarter of 2018, largely reflecting the quarter-over-quarter impact of downtime, which, in the current quarter, principally related to the aforementioned production curtailments at all of the Company's pulp mills which reduced pulp production by 135,000 tonnes. The completion of a scheduled maintenance outage at the Company's Prince George pulp mill in the current quarter further reduced pulp production by 4,000 tonnes. In the second quarter of 2019, the Company completed scheduled maintenance outages at the Intercontinental NBSK pulp and Taylor BCTMP mills which reduced pulp production by 11,000 tonnes and 6,000 tonnes, respectively, and in the third quarter of 2018, the Company completed its scheduled maintenance outage at Northwood NBSK pulp mill which reduced NBSK pulp production by 28,000 tonnes.

Pulp unit manufacturing costs were significantly higher in the current quarter compared to both comparative periods, principally reflecting reduced production. 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 available higher-cost whole log chips.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars unless otherwise noted)	**Q3 2019**	Q2 2019	**YTD 2019**	Q3 2018	YTD 2018
Sales	**$ 37.1**	$ 48.6	**$ 134.2**	$ 48.1	$ 134.8
Operating income before amortization[9]	**$ 4.8**	$ 9.0	**$ 20.6**	$ 4.2	$ 10.8
Operating income	**$ 3.9**	$ 8.1	**$ 17.9**	$ 3.1	$ 7.5
Production – paper (000 mt)	**28.3**	36.0	**99.3**	34.1	99.0
Shipments – paper (000 mt)	**26.8**	33.3	**92.8**	33.6	98.2

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

Markets

Global kraft paper markets continued to weaken throughout the third quarter of 2019 in all key markets, including Asia, North America and Europe.

Sales

The Company's paper shipments in the third quarter of 2019 were 27,000 tonnes, down 25% and 20%, respectively, compared to the previous quarter and third quarter of 2018, largely reflecting a marked slowdown in global kraft paper market demand in the current period.

Paper unit sales realizations for the third quarter of 2019 reflected weaker US-dollar prices as the quarter progressed. Compared to the third quarter of 2018, average paper unit sales realizations showed a modest decrease, reflecting lower US-dollar prices, offset in part by the 1% weaker Canadian dollar in the current quarter.

Operations

Paper production for the third quarter of 2019 was 28,000 tonnes, down 8,000 tonnes from the previous quarter and 6,000 tonnes from the third quarter of 2018, principally reflecting the extended mill scheduled maintenance outage completed in the current quarter.

Paper unit manufacturing costs were moderately lower than the second quarter of 2019 and down significantly when compared to the third quarter of 2018. The decrease compared to both comparative periods was principally driven by reduced slush pulp costs associated with the lower Canadian dollar NBSK pulp unit sales realizations in the current quarter, offset in part by the impact of the extended outage, which contributed to higher paper unit manufacturing costs in the current quarter.

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)	**Q3 2019**	Q2 2019	**YTD 2019**	Q3 2018	YTD 2018
Corporate costs	**$ (2.4)**	$ (2.6)	**$ (8.3)**	$ (3.3)	$ (10.2)
Finance expense, net	**$ (1.6)**	$ (1.9)	**$ (5.0)**	$ (0.8)	$ (3.3)
Other income (expense), net	**$ 1.2**	$ (1.8)	**$ (2.5)**	$ (2.1)	$ 3.9

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

Corporate costs of $2.4 million for the third quarter of 2019, were broadly in line with the previous quarter and down $0.9 million when compared to the third quarter of 2018, largely reflecting reduced head office and general administrative expenses in the current quarter.

Net finance expense for the third quarter of 2019, at $1.6 million, was down $0.3 million from the second quarter of 2019, and up $0.8 million from the third quarter of 2018. The decrease when compared to the previous quarter largely reflected lower interest expense associated with the Company's operating loan facility. Compared to the third quarter of 2018, higher finance expense primarily related to lower interest revenue earned as a result of lower cash balances in the current quarter.

Other income, net of $1.2 million for the third quarter of 2019 was up $3.0 million and $3.3 million from net expenses recognized in the previous quarter and in the third quarter of 2018, respectively, principally reflecting favourable foreign exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income (Loss)

In the third quarter of 2019, the Company recorded a gain of $1.0 million (before tax) related to changes in the valuation of the Company's employee future benefits plans, mostly reflecting a higher than anticipated return on plan assets, and to a lesser extent, lower service and interest costs associated with the 50% reduction in Medical Service Plan ("MSP") premiums in the second quarter of 2019, following a change in legislation in BC.

This compared to an after-tax gain of $10.6 million recognized in the second quarter of 2019, which primarily reflected the reduction in MSP premiums, and, to a lesser extent, a return on assets greater than the discount rate, offset in part by a lower discount rate used to value the employee future benefit plan obligation. The 50% reduction in MSP recognized in the second quarter of 2019, when combined with the initial 50% reduction recognized in the fourth quarter of 2017, resulted in a gain of $47.4 million, or $0.73 per common share, reflected as a reduction in the Company's non-pension post-retirement benefit obligation.

In the third quarter of 2018, the Company recorded an after-tax gain of $0.4 million, largely reflecting a higher than anticipated return on plan assets.

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)	**Q3 2019**	Q2 2019	**YTD 2019**	Q3 2018	YTD 2018
Increase (decrease) in cash and cash equivalents	**$ 19.8**	$ (0.4)	**$ 12.5**	$ 17.5	$ 128.7
Operating activities	**$ 1.3**	$ 52.3	**$ 54.2**	$ 55.1	$ 220.1
Financing activities	**$ 44.3**	$ (28.3)	**$ 34.0**	$ (4.9)	$ (14.9)
Investing activities	**$ (25.8)**	$ (24.4)	**$ (75.7)**	$ (32.7)	$ (76.5)
Ratio of current assets to current liabilities			**2.3 : 1**		2.5:1
Net debt (cash) to capitalization[10]			**5.0%**		(39.0)%
ROIC – Consolidated period-to-date	**(5.7)%**	2.4%	**(1.0)%**	9.0%	34.8%

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

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

Changes in Financial Position

Cash generated from operating activities in the third quarter of 2019 was $1.3 million, down $51.0 million from the second quarter of 2019, and down $53.8 million from the third quarter of 2018. The decrease in operating cash flows compared to the second quarter of 2019 largely reflected the cash loss incurred in the current period, which more than offset favourable movements in non-cash working capital balances. The latter primarily reflected a decrease in trade accounts receivables due to the decline in shipments and a decrease in finished pulp inventories during the curtailments, both of which more than offset the impact of timing-related decreases in accounts payable and accrued liabilities. Compared to the third quarter of 2018, operating cash flows in the current period reflected the material decrease in cash earnings, offset in part by lower income tax payments, and, to a lesser extent, favourable movements in non-cash working capital balances.

Cash generated from financing activities in the third quarter of 2019 was $44.3 million, compared to cash used of $28.3 million in the second quarter of 2019 and cash used of $4.9 million in the third quarter of 2018. Cash generated from financing activities in the current quarter principally related to the receipt of a $50.0 million term loan on September 30, 2019, partially offset by a quarterly dividend of $4.1 million ($0.0625 per common share). Finance activities in the second quarter of 2019 principally related to a $23.0 million repayment of the Company's principal operating loan facility, and payment of a quarterly dividend of $4.1 million ($0.0625 per common share). Cash used for financing in the third quarter of 2018 primarily reflected a quarterly dividend of $4.1 million ($0.0625 per common share).

Cash used for investing activities of $25.8 million in the third quarter of 2019 was broadly in line with the previous period and down $6.9 million when compared to the third quarter of 2018. Cash used for investing activities in the current quarter primarily included ongoing work on several high-return discretionary projects as well as maintenance-of-business capital. The decrease when compared to the third quarter of 2018 principally reflected capital expenditures associated with large energy projects at the Northwood and Taylor pulp mills in the comparative period.

Liquidity and Financial Requirements

At September 30, 2019, the Company had a $110.0 million unsecured operating loan facility and $13.0 million reserved for several standby letters of credit, resulting in $97.0 million available and undrawn from its operating loan facility at the end of the quarter. During the third quarter of 2019, the maturity date of the Company's operating loan facility was extended from April 6, 2022 to April 6, 2023.

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.

On September 30, 2019, the Company entered into a new $50.0 million non-revolving term floating interest rate loan. The loan is repayable on September 30, 2022, with the calculation of interest and covenants consistent with the Company's existing operating loan facility.

At September 30, 2019, the Company remained in compliance with the covenants relating to its operating and term facilities, 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.

As at September 30, 2019, and October 23, 2019, there were 65,233,559 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%.

Dividends

On October 23, 2019, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on November 12, 2019, to the shareholders of record on November 5, 2019.

Licella Pulp Joint Venture

In April 2019, the BC Government, through its Innovative Clean Energy Fund, announced that it will provide funding over several years of $2.0 million, contingent on future spending. Funding of $0.5 million was received in April 2019. Of this amount, $0.1 million and $0.4 million have been recognized as an offset to manufacturing and product costs for the three and nine months ended September 30, 2019, respectively, with $0.1 million included in accounts payable and accrued liabilities at September 30, 2019.

Fibre United

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

OUTLOOK

Pulp Markets

Looking forward, global softwood kraft pulp markets are projected to show signs of a modest recovery in the fourth quarter of 2019 with consumers replenishing inventories following the seasonally slower summer months. It is anticipated that global pulp pricing will slowly improve through the balance of 2019 and into 2020 as global inventories move towards a more balanced range. Given the impacts of recently announced sawmill curtailments and closures in the BC Interior, fibre costs are projected to remain under pressure given the limited supply of incremental pulp logs. Results in the fourth quarter of 2019 will include a one week curtailment at the Company's Prince George NBSK pulp mill and paper machine at the beginning of October, a continuation from the third quarter.

Paper Markets

Bleached kraft paper demand is anticipated to remain relatively weak through the balance of the year, with prices projected to remain under pressure in the fourth quarter before stabilizing in 2020.

OUTSTANDING SHARES

At October 23, 2019 there were 65,233,559 common shares of the Company outstanding.

CRITICAL ACCOUNTING ESTIMATES

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

ADOPTION OF NEW ACCOUNTING STANDARDS

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

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

RISKS AND UNCERTAINTIES

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 216.9**	$ 319.5	$ 304.0	$ 289.7	$ 328.5	$ 396.4	$ 359.7	$ 322.9
Operating income (loss) before amortization	**$ (20.3)**	$ 41.7	$ 40.4	$ 36.1	$ 80.7	$ 105.1	$ 104.3	$ 85.6
Operating income (loss)	**$ (44.0)**	$ 18.4	$ 18.1	$ 15.6	$ 60.5	$ 85.4	$ 85.1	$ 66.8
Net income (loss)	**$ (32.4)**	$ 10.6	$ 10.8	$ 14.2	$ 42.9	$ 63.0	$ 64.3	$ 45.2
Per common share (Canadian dollars)								
Net income (loss) – basic and diluted	**$ (0.50)**	$ 0.16	$ 0.17	$ 0.21	$ 0.66	$ 0.97	$ 0.99	$ 0.69
Book value[11]	**$ 8.92**	$ 9.47	$ 9.21	$ 9.14	$ 11.22	$ 10.62	$ 9.72	$ 8.76
Dividends declared[12]	**$ 0.0625**	$ 0.0625	$ 0.0625	$ 0.0625	$ 2.3125	$ 0.0625	$ 0.0625	$ 0.0625
Common Share Repurchases								
Share volume repurchased (000 shares)	**17**	-	-	-	-	-	-	8
Shares repurchased (millions of Canadian dollars)	**$ 0.1**	$ -	$ -	$ -	$ -	$ -	$ -	$ 0.1
Statistics								
Pulp shipments (000 mt)	**213.3**	288.1	258.8	230.7	262.4	328.6	310.0	299.7
Paper shipments (000 mt)	**26.8**	33.3	32.7	32.0	33.6	32.6	32.0	35.8
Average exchange rate – US$/Cdn$	**$ 0.757**	$ 0.748	$ 0.752	$ 0.758	$ 0.765	$ 0.774	$ 0.791	$ 0.786
Average NBSK pulp list price delivered to China (US$)	**$ 585**	$ 653	$ 710	$ 805	$ 887	$ 910	$ 910	$ 863

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

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

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

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

After-tax impact (millions of Canadian dollars, except for per share amounts)	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Net income (loss), as reported	**$ (32.4)**	$ 10.6	$ 10.8	$ 14.2	$ 42.9	$ 63.0	$ 64.3	$ 45.2
Change in substantively enacted tax legislation	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ 2.8
Net impact of above items	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ 2.8
Adjusted net income (loss)	**$ (32.4)**	$ 10.6	$ 10.8	$ 14.2	$ 42.9	$ 63.0	$ 64.3	$ 48.0
Net income (loss) per share (EPS), as reported	**$ (0.50)**	$ 0.16	$ 0.17	$ 0.21	$ 0.66	$ 0.97	$ 0.99	$ 0.69
Net impact of above items per share	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ 0.04
Adjusted net income (loss) per share	**$ (0.50)**	$ 0.16	$ 0.17	$ 0.21	$ 0.66	$ 0.97	$ 0.99	$ 0.73

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at September 30, 2019**		As at December 31, 2018
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**19.4**	$	6.9
Accounts receivable - Trade		**81.2**		107.6
- Other		**7.0**		11.4
Income taxes receivable		**20.9**		5.4
Inventories (Note 2)		**186.7**		207.1
Prepaid expenses and other		**21.9**		11.9
Total current assets		**337.1**		350.3
Property, plant and equipment and intangible assets		**590.9**		578.2
Right-of-use assets (Note 3(a))		**2.8**		-
Other long-term assets		**2.9**		3.5
Total assets	**$**	**933.7**	$	932.0
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**147.1**	$	182.0
Current portion of lease obligations (Note 3(b))		**1.1**		-
Total current liabilities		**148.2**		182.0
Long-term debt (Note 4(b))		**50.0**		-
Lease obligations (Note 3(b))		**2.1**		-
Retirement benefit obligations (Note 5)		**68.7**		80.0
Other long-term provisions		**6.8**		6.6
Deferred income taxes, net		**76.1**		66.8
Total liabilities	**$**	**351.9**	$	335.4
EQUITY				
Share capital	**$**	**480.8**	$	480.9
Retained earnings		**101.0**		115.7
Total equity	**$**	**581.8**	$	596.6
Total liabilities and equity	**$**	**933.7**	$	932.0

Subsequent Event (Note 12)

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 (Loss)

(millions of Canadian dollars, except per share data, unaudited)	3 months ended September 30, **2019**	3 months ended September 30, 2018	9 months ended September 30, **2019**	9 months ended September 30, 2018
Sales	**$ 216.9**	$ 328.5	**$ 840.4**	$ 1,084.6
Costs and expenses				
Manufacturing and product costs	**199.4**	205.4	**648.4**	658.1
Freight and other distribution costs	**32.0**	34.8	**109.3**	112.9
Amortization	**23.7**	20.2	**69.3**	59.1
Selling and administration costs	**5.8**	7.6	**20.9**	23.5
	260.9	268.0	**847.9**	853.6
Operating income (loss)	**(44.0)**	60.5	**(7.5)**	231.0
Finance expense, net	**(1.6)**	(0.8)	**(5.0)**	(3.3)
Other income (expense), net	**1.2**	(2.1)	**(2.5)**	3.9
Net income (loss) before income taxes	**(44.4)**	57.6	**(15.0)**	231.6
Income tax recovery (expense) (Note 6)	**12.0**	(14.7)	**4.0**	(61.4)
Net income (loss)	**$ (32.4)**	$ 42.9	**$ (11.0)**	$ 170.2
Net income (loss) per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 7)	**$ (0.50)**	$ 0.66	**$ (0.17)**	$ 2.61

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 (Loss)

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2019**	2018	9 months ended September 30, **2019**	2018
Net income (loss)	**$ (32.4)**	$ 42.9	**$ (11.0)**	$ 170.2
Other comprehensive income (loss)				
Items that will not be recycled through net income (loss):				
Defined benefit plan actuarial gains (Note 5)	**1.0**	0.6	**12.1**	4.0
Income tax expense on defined benefit plan actuarial gains (Note 6)	**(0.3)**	(0.2)	**(3.3)**	(1.1)
Other comprehensive income, net of tax	**0.7**	0.4	**8.8**	2.9
Total comprehensive income (loss)	**$ (31.7)**	$ 43.3	**$ (2.2)**	$ 173.1

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2019**	2018	9 months ended September 30, **2019**	2018
Share capital				
Balance at beginning of period	**$ 480.9**	$ 480.9	**$ 480.9**	$ 480.9
Share purchase	**(0.1)**	-	**(0.1)**	-
Balance at end of period	**$ 480.8**	$ 480.9	**$ 480.8**	$ 480.9
Retained earnings				
Balance at beginning of period	**$ 136.9**	$ 212.1	**$ 115.7**	$ 90.5
Net income (loss)	**(32.4)**	42.9	**(11.0)**	170.2
Defined benefit plan actuarial gains, net of tax	**0.7**	0.4	**8.8**	2.9
Dividends declared	**(4.1)**	(4.1)	**(12.3)**	(12.3)
Impact of change in accounting policy (Notes 1 and 3)	**-**	-	**(0.1)**	-
Share purchase	**(0.1)**	-	**(0.1)**	-
Balance at end of period	**$ 101.0**	$ 251.3	**$ 101.0**	$ 251.3
Total equity	**$ 581.8**	$ 732.2	**$ 581.8**	$ 732.2

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 September 30, **2019**	2018	9 months ended September 30, **2019**	2018
Cash generated from (used in):				
Operating activities				
Net income (loss)	**$ (32.4)**	$ 42.9	**$ (11.0)**	$ 170.2
Items not affecting cash:				
Amortization	**23.7**	20.2	**69.3**	59.1
Income tax expense (recovery) (Note 6)	**(12.0)**	14.7	**(4.0)**	61.4
Employee future benefits expense	**0.9**	1.1	**2.8**	3.3
Finance expense, net	**1.6**	0.8	**5.0**	3.3
Other, net	**(1.1)**	(1.5)	**(0.9)**	(1.9)
Defined benefit plan contributions, net	**(1.5)**	(1.6)	**(4.0)**	(5.0)
Income taxes paid, net	**(0.1)**	(35.2)	**(4.5)**	(54.1)
	(20.9)	41.4	**52.7**	236.3
Net change in non-cash working capital (Note 8)	**22.2**	13.7	**1.5**	(16.2)
	1.3	55.1	**54.2**	220.1
Financing activities				
Payment of lease obligations (Note 3(b))	**(0.4)**	-	**(0.8)**	-
Proceeds from long-term debt (Note 4(b))	**50.0**	-	**50.0**	-
Finance expenses paid	**(1.0)**	(0.8)	**(2.7)**	(2.5)
Dividends paid	**(4.1)**	(4.1)	**(12.3)**	(12.3)
Share purchases	**(0.2)**	-	**(0.2)**	(0.1)
	44.3	(4.9)	**34.0**	(14.9)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(26.0)**	(33.4)	**(75.9)**	(78.0)
Other, net	**0.2**	0.7	**0.2**	1.5
	(25.8)	(32.7)	**(75.7)**	(76.5)
Increase in cash and cash equivalents*	**19.8**	17.5	**12.5**	128.7
Cash and cash equivalents at beginning of period*	**(0.4)**	187.9	**6.9**	76.7
Cash and cash equivalents at end of period*	**$ 19.4**	$ 205.4	**$ 19.4**	$ 205.4

*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 September 30, 2019 and October 23, 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 October 23, 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 periods.

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 (loss).

2. Inventories

(millions of Canadian dollars, unaudited)		**As at September 30, 2019**		As at December 31, 2018
Pulp	**$**	**68.4**	$	83.2
Paper		**29.0**		22.2
Wood chips and logs		**36.6**		48.3
Materials and supplies		**52.7**		53.4
	$	**186.7**	$	207.1

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

3. Leases

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

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

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

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

(a) Right-of-Use Assets

(millions of Canadian dollars, unaudited)		Land		Machinery and equipment		Other facilities and equipment		Total
Cost								
Balance at January 1, 2019	$	0.1	$	5.5	$	1.4	$	7.0
Additions		-		0.3		0.2		0.5
Balance at September 30, 2019	$	0.1	$	5.8	$	1.6	$	7.5
Amortization								
Balance at January 1, 2019	$	-	$	(2.7)	$	(1.0)	$	(3.7)
Amortization		-		(0.7)		(0.3)		(1.0)
Balance at September 30, 2019	$	-	$	(3.4)	$	(1.3)	$	(4.7)
Carrying Amounts								
At January 1, 2019	$	0.1	$	2.8	$	0.4	$	3.3
At September 30, 2019	**$**	**0.1**	**$**	**2.4**	**$**	**0.3**	**$**	**2.8**

Amortization expense on right-of-use assets for the three and nine months ended September 30, 2019, was $0.3 million and $1.0 million, respectively.

(b) Lease Obligations

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

(millions of Canadian dollars, unaudited)		**As at September 30, 2019**
Within one year	**$**	**1.1**
Between one and five years		**2.2**
Beyond five years		**0.1**
Total undiscounted lease obligations	**$**	**3.4**

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

(millions of Canadian dollars, unaudited)		**As at September 30, 2019**
Current	**$**	**1.1**
Non-Current		**2.1**
Total discounted lease obligations	**$**	**3.2**

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

Operating lease expense relating to short-term and low-value leases not included in the measurement of lease obligations for the three and nine months ended September 30, 2019 was $0.2 million and $0.6 million, respectively.

For the three months ended September 30, 2019, total cash outflows for leases was $0.6 million, including $0.2 million for short-term and low-value leases. For the nine months ended September 30, 2019, total cash outflows for leases was $1.4 million, including $0.6 million for short-term and low-value leases.

4. Operating Loan and Long-Term Debt

(a) Available Operating Loans

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

On September 30, 2019, the maturity date of the Company's operating loan facility was extended from April 6, 2022 to April 6, 2023.

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 September 30, 2019, the Company was fully in compliance with all covenants relating to its operating loan.

(b) Long-Term Debt

On September 30, 2019, the Company entered into a new non-revolving term loan for $50.0 million. The loan is repayable on September 30, 2022, with interest payable based on the lenders' Canadian prime rate, bankers' acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin.

The term loan covenants are consistent with the Company's existing operating loan facility. At September 30, 2019, the Company was fully in compliance with all covenants relating to its long-term debt.

5. Employee Future Benefits

Medical Services Plan Changes

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

Significant assumptions

For the three months ended September 30, 2019, defined benefit plan actuarial gains of $1.0 million (before tax) were recognized in other comprehensive income (loss) reflecting a higher than anticipated return on plan assets, and to a lesser extent, lower service and interest costs associated with the 50% reduction in MSP premiums in the second quarter of 2019.

For the nine months ended September 30, 2019, defined benefit plan actuarial gains of $12.1 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 lower discount rates used to value the net defined benefit obligation in the first and second quarters of 2019.

For the three and nine months ended September 30, 2018, the Company recognized actuarial gains in other comprehensive income of $0.6 million and $4.0 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**
September 30, 2019	**3.0%**	**3.0%**
June 30, 2019	3.0%	3.0%
December 31, 2018	3.6%	3.6%
September 30, 2018	3.6%	3.6%
June 30, 2018	3.6%	3.6%
December 31, 2017	3.4%	3.4%

6. Income Taxes

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2019	2018	9 months ended September 30, 2019	2018
Current	**$ 10.7**	$ (20.2)	**$ 10.0**	$ (68.9)
Deferred	**1.3**	5.5	**(6.0)**	7.5
Income tax recovery (expense)	**$ 12.0**	$ (14.7)	**$ 4.0**	$ (61.4)

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 September 30, 2019	2018	9 months ended September 30, 2019	2018
Income tax recovery (expense) at statutory rate – 27% (2018 – 27%)	**$ 12.0**	$ (15.5)	**$ 4.1**	$ (62.5)
Add:				
Entities with different income tax rates and other tax adjustments	**-**	0.8	**(0.1)**	1.1
Income tax recovery (expense)	**$ 12.0**	$ (14.7)	**$ 4.0**	$ (61.4)

In addition, a tax expense of $0.3 million related to actuarial gains on the Company's defined benefit plans was recorded in other comprehensive income (loss) for the three months ended September 30, 2019 (three months ended September 30, 2018 – expense of $0.2 million). For the nine months ended September 30, 2019, a tax expense of $3.3 million related to actuarial gains on the Company's defined benefit plans was recorded in other comprehensive income (loss) (nine months ended September 30, 2018 – expense of $1.1 million).

7. Earnings per Share and Normal Course Issuer Bid

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

	3 months ended September 30, 2019	2018	9 months ended September 30, 2019	2018
Weighted average number of common shares	**65,238,662**	65,250,759	**65,246,727**	65,250,764

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 September 30, 2019 and October 23, 2019, there were 65,233,559 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 September 30, 2019	2018	9 months ended September 30, 2019	2018
Accounts receivable	**$ 35.6**	$ 40.1	**$ 27.1**	$ (10.3)
Inventories	**23.1**	(31.7)	**20.4**	(26.1)
Prepaid expenses and other	**(9.8)**	(4.7)	**(6.8)**	(4.9)
Accounts payable and accrued liabilities	**(26.7)**	10.0	**(39.2)**	25.1
Net change in non-cash working capital	**$ 22.2**	$ 13.7	**$ 1.5**	$ (16.2)

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 Adjustment	Consolidated
3 months ended September 30, 2019					
Sales from contracts with customers	**$ 179.8**	**$ 37.1**	**$ -**	**$ -**	**$ 216.9**
Sales to other segments	**17.5**	**-**	**-**	**(17.5)**	**-**
Operating income (loss)	**(45.5)**	**3.9**	**(2.4)**	**-**	**(44.0)**
Amortization	**22.7**	**0.9**	**0.1**	**-**	**23.7**
Capital expenditures[1]	**24.1**	**1.5**	**0.4**	**-**	**26.0**
3 months ended September 30, 2018					
Sales from contracts with customers	$ 280.4	$ 48.1	$ -	$ -	$ 328.5
Sales to other segments	31.2	-	-	(31.2)	-
Operating income (loss)	60.7	3.1	(3.3)	-	60.5
Amortization	19.1	1.1	-	-	20.2
Capital expenditures[1]	30.8	0.4	2.2	-	33.4
9 months ended September 30, 2019					
Sales from contracts with customers	**$ 705.8**	**$ 134.2**	**$ 0.4**	**$ -**	**$ 840.4**
Sales to other segments	**73.1**	**-**	**-**	**(73.1)**	**-**
Operating income (loss)	**(17.1)**	**17.9**	**(8.3)**	**-**	**(7.5)**
Amortization	**66.5**	**2.7**	**0.1**	**-**	**69.3**
Capital expenditures[1]	**70.5**	**4.2**	**1.2**	**-**	**75.9**
Identifiable assets	**818.1**	**65.9**	**49.7**	**-**	**933.7**
9 months ended September 30, 2018					
Sales from contracts with customers	$ 949.4	$ 134.8	$ 0.4	$ -	$ 1,084.6
Sales to other segments	87.6	-	-	(87.6)	-
Operating income (loss)	233.7	7.5	(10.2)	-	231.0
Amortization	55.8	3.3	-	-	59.1
Capital expenditures[1]	72.5	3.3	2.2	-	78.0
Identifiable assets	821.4	59.7	217.1	-	1,098.2

[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 September 30, **2019**	3 months ended September 30, 2018	9 months ended September 30, **2019**	9 months ended September 30, 2018
Sales by location of customer				
Canada	**$ 22.2**	$ 21.3	**$ 62.2**	$ 59.5
Asia	**101.5**	186.3	**444.2**	683.7
United States	**73.5**	91.1	**246.2**	243.0
Europe	**8.9**	18.0	**38.0**	47.6
Other	**10.8**	11.8	**49.8**	50.8
	$ 216.9	$ 328.5	**$ 840.4**	$ 1,084.6

10. Related Party Transactions

For the nine months ended September 30, 2019, the Company depended on Canfor to provide approximately 69% (nine months ended September 30, 2018 - 62%) 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 September 30,		9 months ended September 30,	
(millions of Canadian dollars, unaudited)	**2019**	2018	**2019**	2018
Transactions				
Purchase of wood chips and other	**$ 55.4**	$ 79.8	**$ 188.2**	$ 196.9

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

11. Licella Pulp Joint Venture

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

Under IFRS 11, *Joint Arrangements*, the joint venture is classified as a joint operation and CPPI recognizes its assets, liabilities and transactions, including its share of those incurred jointly, in its financial statements. For the three months ended September 30, 2019, the Company's share of the joint venture's expenses was $1.3 million (three months ended September 30, 2018 - $0.4 million), which have been recognized in manufacturing and product costs. For the nine months ended September 30, 2019, the Company's share of the joint venture's expenses was $3.9 million (nine months ended September 30, 2018 - $1.4 million). The Company is required to contribute the first $20.0 million of any funding requirements, including cash and non-cash contributions, to the joint venture, of which $7.8 million has been contributed since commencement of the joint venture to September 30, 2019.

In March 2017, the Canadian Federal Government through its Sustainable Development Technology Canada program announced the funding over several years of approximately $13.2 million, contingent on future spending. Advance funding of $1.9 million was received in April 2018 for the period from October 1, 2017 through to the time at which the terms of funding are met. Of this amount, $0.4 million has been recognized as an offset to manufacturing and product costs for the three months ended September 30, 2019. For the nine months ended September 30, 2019, an offset of $1.0 million has been recognized with $0.2 million included in accounts payable and accrued liabilities at September 30, 2019.

In April 2019, the BC Government, through its Innovative Clean Energy Fund, announced that it will provide funding over several years of $2.0 million, contingent on future spending. Funding of $0.5 million was received in April 2019. Of this amount, $0.1 million has been recognized as an offset to manufacturing and product costs for the three months ended September 30, 2019. For the nine months ended September 30, 2019, an offset of $0.4 million has been recognized, with $0.1 million included in accounts payable and accrued liabilities at September 30, 2019.

12. Subsequent Event

On October 23, 2019 the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on November 12, 2019 to the shareholders of record on November 5, 2019.