2019

QUARTER ONE
FINANCIAL STATEMENTS

CANFOR PULP PRODUCTS INC.

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

	3 months ended March 31,	
(millions of Canadian dollars, unaudited)	**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.