



2019

QUARTER THREE

MANAGEMENT'S DISCUSSION & ANALYSIS

CANFOR PULP PRODUCTS INC.

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 supply⁷; 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