2020

QUARTER TWO

FINANCIAL STATEMENTS

CANFOR PULP PRODUCTS INC.

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at June 30, 2020**		As at December 31, 2019
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**56.0**	$	6.0
Accounts receivable - Trade		**60.1**		80.5
- Other		**7.1**		6.6
Income taxes receivable		**0.3**		29.7
Inventories (Note 2)		**192.4**		193.7
Prepaid expenses and other		**13.1**		14.8
Total current assets		**329.0**		331.3
Property, plant and equipment and intangible assets		**563.5**		580.8
Right-of-use assets		**2.3**		2.5
Other long-term assets		**4.2**		6.2
Total assets	**$**	**899.0**	$	920.8
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**129.2**	$	142.2
Operating loan (Note 3(a))		**-**		14.0
Current portion of lease obligations		**0.9**		1.0
Total current liabilities		**130.1**		157.2
Term debt (Note 3(b))		**50.0**		50.0
Lease obligations		**1.8**		1.9
Retirement benefit obligations (Note 4)		**70.3**		68.6
Other long-term provisions		**8.1**		7.1
Deferred income taxes, net		**79.5**		77.7
Total liabilities	**$**	**339.8**	$	362.5
EQUITY				
Share capital	**$**	**480.8**	$	480.8
Retained earnings		**78.4**		77.5
Total equity	**$**	**559.2**	$	558.3
Total liabilities and equity	**$**	**899.0**	$	920.8

Commitments and Contingencies (Note 10)

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 June 30, **2020**	3 months ended June 30, 2019	6 months ended June 30, **2020**	6 months ended June 30, 2019
Sales	**$ 250.7**	$ 319.5	**$ 526.3**	$ 623.5
Costs and expenses				
Manufacturing and product costs	**198.7**	229.3	**402.1**	449.0
Freight and other distribution costs	**33.7**	41.3	**72.7**	77.3
Amortization	**19.6**	23.3	**41.2**	45.6
Selling and administration costs	**5.0**	7.2	**10.5**	15.1
	257.0	301.1	**526.5**	587.0
Operating income (loss)	**(6.3)**	18.4	**(0.2)**	36.5
Finance expense, net	**(1.3)**	(1.9)	**(2.9)**	(3.4)
Other income (expense), net (Note 10)	**6.2**	(1.8)	**11.1**	(3.7)
Net income (loss) before income taxes	**(1.4)**	14.7	**8.0**	29.4
Income tax recovery (expense) (Note 5)	**0.3**	(4.1)	**(2.1)**	(8.0)
Net income (loss)	**$ (1.1)**	$ 10.6	**$ 5.9**	$ 21.4
Net income (loss) per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 6)	**$ (0.02)**	$ 0.16	**$ 0.09**	$ 0.33

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 June 30, 2020	3 months ended June 30, 2019	6 months ended June 30, 2020	6 months ended June 30, 2019
Net income (loss)	**$ (1.1)**	$ 10.6	**$ 5.9**	$ 21.4
Other comprehensive income (loss)				
Items that will not be recycled through net income (loss):				
Defined benefit plan actuarial gains (losses) (Note 4)	**(6.5)**	14.5	**(1.2)**	11.1
Income tax recovery (expense) on defined benefit plan actuarial losses/gains (Note 5)	**1.7**	(3.9)	**0.3**	(3.0)
Other comprehensive income (loss), net of tax	**(4.8)**	10.6	**(0.9)**	8.1
Total comprehensive income (loss)	**$ (5.9)**	$ 21.2	**$ 5.0**	$ 29.5

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended June 30, 2020	3 months ended June 30, 2019	6 months ended June 30, 2020	6 months ended June 30, 2019
Share capital				
Balance at beginning of period	**$ 480.8**	$ 480.9	**$ 480.8**	$ 480.9
Balance at end of period	**$ 480.8**	$ 480.9	**$ 480.8**	$ 480.9
Retained earnings				
Balance at beginning of period	**$ 84.3**	$ 119.8	**$ 77.5**	$ 115.7
Net income (loss)	**(1.1)**	10.6	**5.9**	21.4
Defined benefit plan actuarial gains (losses), net of tax	**(4.8)**	10.6	**(0.9)**	8.1
Dividends declared	**-**	(4.1)	**(4.1)**	(8.2)
Impact of change in lease accounting policy	**-**	-	**-**	(0.1)
Balance at end of period	**$ 78.4**	$ 136.9	**$ 78.4**	$ 136.9
Total equity	**$ 559.2**	$ 617.8	**$ 559.2**	$ 617.8

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 June 30, **2020**	3 months ended June 30, 2019	6 months ended June 30, **2020**	6 months ended June 30, 2019
Cash generated from (used in):				
Operating activities				
Net income (loss)	**$ (1.1)**	$ 10.6	**$ 5.9**	$ 21.4
Items not affecting cash:				
Amortization	**19.6**	23.3	**41.2**	45.6
Income tax expense (recovery) (Note 5)	**(0.3)**	4.1	**2.1**	8.0
Employee future benefits expense	**1.0**	0.9	**1.9**	1.9
Finance expense, net	**1.3**	1.9	**2.9**	3.4
Other, net	**(0.4)**	(0.1)	**0.3**	0.2
Defined benefit plan contributions, net	**(1.0)**	(1.4)	**(2.4)**	(2.5)
Income taxes received (paid), net	**-**	(0.4)	**29.3**	(4.4)
	19.1	38.9	**81.2**	73.6
Net change in non-cash working capital (Note 7)	**42.8**	13.4	**20.2**	(20.7)
	61.9	52.3	**101.4**	52.9
Financing activities				
Payment of lease obligations	**(0.1)**	(0.2)	**(0.4)**	(0.4)
Change in operating loan (Note 3(a))	**(11.0)**	(23.0)	**(14.0)**	-
Finance expenses paid	**(0.7)**	(1.0)	**(2.1)**	(1.7)
Dividends paid	**-**	(4.1)	**(4.1)**	(8.2)
	(11.8)	(28.3)	**(20.6)**	(10.3)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(12.2)**	(24.4)	**(31.0)**	(49.9)
Other, net	**0.1**	-	**0.2**	-
	(12.1)	(24.4)	**(30.8)**	(49.9)
Increase (decrease) in cash and cash equivalents*	**38.0**	(0.4)	**50.0**	(7.3)
Cash and cash equivalents at beginning of period*	**18.0**	-	**6.0**	6.9
Cash and cash equivalents at end of period*	**$ 56.0**	$ (0.4)	**$ 56.0**	$ (0.4)

*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 June 30, 2020 and July 23, 2020, 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, 2019, available at www.canfor.com or www.sedar.com.

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

These financial statements were authorized for issue by the Company's Board of Directors on July 23, 2020.

2. Inventories

(millions of Canadian dollars, unaudited)	**As at June 30, 2020**	As at December 31, 2019
Pulp	**$ 91.6**	$ 72.8
Paper	**24.0**	29.7
Wood chips and logs	**21.5**	35.9
Materials and supplies	**55.3**	55.3
	$ 192.4	$ 193.7

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended June 30, 2020, a $8.2 million inventory write-down expense was recognized (six months ended June 30, 2020 - $2.5 million write-down recovery), resulting in an inventory provision for finished pulp and raw materials of $8.2 million at June 30, 2020 (December 31, 2019 – provision of $10.7 million).

3. Operating Loan and Term Debt

(a) Operating Loan

(millions of Canadian dollars, unaudited)	**As at June 30, 2020**	As at December 31, 2019
Operating loan facility	**$ 110.0**	$ 110.0
Letters of credit	**(12.9)**	(13.2)
Operating loan facility drawn	**-**	(14.0)
Total available operating loan facility	**$ 97.1**	$ 82.8

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 June 30, 2020, the Company was fully in compliance with all covenants relating to its operating loan facility.

(b) Term Debt

The Company's $50.0 million non-revolving term loan features similar financial covenants to the operating loan facility, including a maximum debt to total capitalization ratio. As at June 30, 2020, the Company was fully in compliance with all covenants relating to its term debt.

4. Employee Future Benefits

For the three months ended June 30, 2020, defined benefit plan actuarial losses of $6.5 million (before tax) were recognized in other comprehensive income (loss), reflecting a lower discount rate used to value the net defined benefit obligations, offset in part by a return on plan assets greater than the discount rate. For the six months ended June 30, 2020, defined benefit plan actuarial losses of $1.2 million (before tax) were recognized in other comprehensive income (loss).

For the three and six months ended June 30, 2019, the Company recognized defined benefit plan actuarial gains in other comprehensive income (loss) of $14.5 million and $11.1 million (before tax), respectively, reflecting the elimination of Medical Services Plan ("MSP") premiums and, to a lesser extent, a return on plan assets greater than the discount rate, offset in part by a lower discount rate used to value the net defined benefit plan obligations.

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

	Defined Benefit Pension Plans	**Other Benefit Plans**
June 30, 2020	**3.0%**	**3.0%**
March 31, 2020	3.7%	3.7%
December 31, 2019	3.0%	3.0%
June 30, 2019	3.0%	3.0%
March 31, 2019	3.3%	3.3%
December 31, 2018	3.6%	3.6%

5. Income Taxes

The components of income tax recovery (expense) are as follows:

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2020**	2019	**2020**	2019
Current	**$ 1.4**	$ 0.8	**$ -**	$ (0.7)
Deferred	**(1.1)**	(4.9)	**(2.1)**	(7.3)
Income tax recovery (expense)	**$ 0.3**	$ (4.1)	**$ (2.1)**	$ (8.0)

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

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2020**	2019	**2020**	2019
Income tax recovery (expense) at statutory rate – 27% (2019 – 27%)	**$ 0.3**	$ (3.8)	**$ (2.2)**	$ (7.9)
Add: Entities with different income tax rates and other tax adjustments	**-**	(0.3)	**0.1**	(0.1)
Income tax recovery (expense)	**$ 0.3**	$ (4.1)	**$ (2.1)**	$ (8.0)

In addition, a tax recovery of $1.7 million related to actuarial losses on the Company's defined benefit plans was recorded in other comprehensive income (loss) for the three months ended June 30, 2020 (three months ended June 30, 2019 - expense of $3.9 million related to actuarial gains). For the six months ended June 30, 2020, a tax recovery of $0.3 million related to actuarial losses on the Company's defined benefit plans was recorded in other comprehensive income (loss) (six months ended June 30, 2019 - expense of $3.0 million related to actuarial gains).

6. Earnings (Loss) per Share

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

	3 months ended June 30,		6 months ended June 30,	
	2020	2019	**2020**	2019
Weighted average number of common shares	**65,233,559**	65,250,759	**65,233,559**	65,250,759

As at June 30, 2020 and July 23, 2020, there were 65,233,559 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%.

7. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended June 30, 2020	3 months ended June 30, 2019	6 months ended June 30, 2020	6 months ended June 30, 2019
Accounts receivable	**$ 25.4**	$ 2.4	**$ 17.4**	$ (8.5)
Inventories	**6.7**	3.2	**1.3**	(2.7)
Prepaid expenses and other	**8.3**	9.4	**3.6**	3.0
Accounts payable and accrued liabilities	**2.4**	(1.6)	**(2.1)**	(12.5)
Net change in non-cash working capital	**$ 42.8**	$ 13.4	**$ 20.2**	$ (20.7)

8. 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 June 30, 2020					
Sales from contracts with customers	**$ 205.8**	**$ 44.9**	**$ -**	**$ -**	**$ 250.7**
Sales to other segments	**21.3**	**-**	**-**	**(21.3)**	**-**
Operating income (loss)	**(12.0)**	**7.4**	**(1.7)**	**-**	**(6.3)**
Amortization	**18.9**	**0.7**	**-**	**-**	**19.6**
Capital expenditures[1]	**11.6**	**0.4**	**0.2**	**-**	**12.2**
3 months ended June 30, 2019					
Sales from contracts with customers	$ 270.9	$ 48.6	$ -	$ -	$ 319.5
Sales to other segments	27.3	-	-	(27.3)	-
Operating income (loss)	12.9	8.1	(2.6)	-	18.4
Amortization	22.4	0.9	-	-	23.3
Capital expenditures[1]	22.4	1.6	0.4	-	24.4
6 months ended June 30, 2020					
Sales from contracts with customers	**$ 438.9**	**$ 87.4**	**$ -**	**$ -**	**$ 526.3**
Sales to other segments	**38.9**	**-**	**-**	**(38.9)**	**-**
Operating income (loss)	**(10.9)**	**14.2**	**(3.5)**	**-**	**(0.2)**
Amortization	**39.8**	**1.4**	**-**	**-**	**41.2**
Capital expenditures[1]	**29.3**	**1.3**	**0.4**	**-**	**31.0**
Identifiable assets	**767.6**	**64.4**	**67.0**	**-**	**899.0**
6 months ended June 30, 2019					
Sales from contracts with customers	$ 526.0	$ 97.1	$ 0.4	$ -	$ 623.5
Sales to other segments	55.6	-	-	(55.6)	-
Operating income (loss)	28.4	14.0	(5.9)	-	36.5
Amortization	43.8	1.8	-	-	45.6
Capital expenditures[1]	46.4	2.7	0.8	-	49.9
Identifiable assets	853.8	69.7	13.4	-	936.9

[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 June 30,						6 months ended June 30,					
			2020			2019			**2020**			2019
Sales by location of customer												
Canada	**8%**	**$**	**19.3**	6%	$	20.4	**8%**	**$**	**44.0**	6%	$	40.0
Asia	**57%**		**142.2**	57%		181.2	**56%**		**294.4**	55%		342.7
United States	**24%**		**61.1**	26%		84.7	**25%**		**129.0**	28%		172.7
Europe	**4%**		**9.8**	5%		14.6	**4%**		**20.7**	5%		29.1
Other	**7%**		**18.3**	6%		18.6	**7%**		**38.2**	6%		39.0
	100%	**$**	**250.7**	100%	$	319.5	**100%**	**$**	**526.3**	100%	$	623.5

9. Related Party Transactions

For the six months ended June 30, 2020, the Company depended on Canfor to provide approximately 67% (six months ended June 30, 2019 - 69%) 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, 2019 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:

(millions of Canadian dollars, unaudited)	3 months ended June 30,				6 months ended June 30,			
		2020		2019		**2020**		2019
Transactions								
Purchase of wood chips and other	**$**	**54.2**	$	62.7	**$**	**118.4**	$	132.8

(millions of Canadian dollars, unaudited)		**As at June 30, 2020**		As at December 31, 2019
Balance Sheet				
Included in accounts payable and accrued liabilities	**$**	**22.9**	$	26.2

10. Commitments and Contingencies

Insurance Proceeds

For the three months ended June 30, 2020, the Company received interim insurance proceeds of $8.9 million (six months ended June 30, 2020 - $10.0 million) in relation to Northwood pulp mill's number five recovery boiler outage in 2018, included as a component of 'Other Income (Expense), Net' on the consolidated statement of income (loss).

Coronavirus Outbreak

On March 11, 2020, the World Health Organization declared the COVID-19 ("COVID-19") outbreak a pandemic. COVID-19's impact on global markets has been significant and in response, CPPI announced a series of significant measures. The Company's Northwood pulp mill was curtailed for three weeks in the second quarter, with a four-week curtailment in July at the Prince George pulp and paper and Intercontinental pulp mills due to a shortage of economically viable fibre in the region caused by COVID-19's impact on sawmill operating rates. In addition to these measures, reduced capital spending and cost containment measures have been implemented across the Company to help mitigate the impacts of the pandemic.

The Company will continue to closely monitor COVID-19, and should the duration, spread or intensity of the pandemic further develop in 2020, the supply chain, market pricing and customer demand could be further affected, impacting the Company's operating plan, liquidity, cash flows, and the valuation of its long-lived assets.

Canada Emergency Wage Subsidy

On March 27, 2020, the Canada Emergency Wage Subsidy ("CEWS") program was introduced by the Government of Canada, reimbursing eligible employers who have experienced the required reduction in revenue for a portion of salaries paid out to employees during the pandemic.

For the second quarter of 2020, a receivable of $2.8 million has been recognized for claims under the CEWS program, included in 'Accounts Receivable – Other' on the Company's consolidated balance sheet at June 30, 2020. In accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, the CEWS has been recognized as an offset to wage expense included in 'Manufacturing and Product Costs' on the Company's consolidated statement of income (loss) for the three and six months ended June 30, 2020. The Company will continue to evaluate its eligibility under the CEWS program through the balance of 2020.