



2020

QUARTER ONE

INTERIM REPORT

FOR THE THREE MONTHS ENDED MAR 31, 2020

CANFOR PULP PRODUCTS INC.

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To Our Shareholders

Canfor Pulp Products Inc. ("CPPI") reported first quarter 2020 results and suspension of its quarterly dividend:

Overview

- First quarter of 2020 reported operating income of \$6 million
- Net income of \$7 million, or \$0.11 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)	Q1 2020	Q4 2019	Q1 2019
Sales	\$ 275.6	\$ 247.5	\$ 304.0
Reported operating income before amortization	\$ 27.7	\$ 0.1	\$ 40.4
Reported operating income (loss)	\$ 6.1	\$ (23.5)	\$ 18.1
Adjusted operating income (loss) before amortization ¹	\$ 17.0	\$ (2.9)	\$ 40.4
Adjusted operating income (loss) ¹	\$ (4.6)	\$ (26.5)	\$ 18.1
Net income (loss)	\$ 7.0	\$ (19.5)	\$ 10.8
Net income (loss) per share, basic and diluted	\$ 0.11	\$ (0.30)	\$ 0.17

¹ Adjusted for inventory write-down recoveries (\$10.7 million recovery in Q1 2020; \$3.0 million recovery in Q4 2019).

The Company reported operating income of \$6.1 million for the first quarter of 2020, up \$29.6 million from the fourth quarter of 2019. Reported results for the first quarter of 2020 included a \$10.7 million recovery in the finished pulp and raw material inventory write-down provision at period end. After adjusting for this, the Company recorded an operating loss of \$4.6 million for the first quarter of 2020, a \$21.9 million improvement from a similarly adjusted operating loss in the previous quarter.

The Company's operating results principally reflected a solid operating performance at the Company's pulp and paper mills, as higher production and a corresponding decline in pulp unit manufacturing costs combined with a 1 cent, or 2%, weaker Canadian dollar, mitigated the impacts of the coronavirus outbreak ("COVID-19") in the latter half of the quarter.

After a modest rebound in Asian pulp markets early in the quarter, global pulp markets weakened in late February and into March reflecting the spread of COVID-19. Demand for tissue, however, remained solid, which helped to offset weakness elsewhere, particularly in the printing and writing segment. Global softwood pulp producer inventories ended February at 37 days of supply, in line with December 2019, but still well above the balanced range. US-dollar Northern Bleached Softwood Kraft ("NBSK") pulp list prices to China averaged US\$573 per tonne, up US\$10 per tonne, or 2%, from the prior quarter. The Company's NBSK pulp unit sales realizations were broadly in line with the prior quarter as slight increases in US-dollar unit sales realizations to most regions and the benefit of the aforementioned weaker Canadian dollar, were offset by the Company's regional grade mix. Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") unit sales realizations showed a moderate increase from the previous quarter reflecting a gradual improvement in BCTMP US-dollar prices through the quarter combined with the weaker Canadian dollar.

Energy revenues were up quarter-over-quarter, largely reflecting seasonally higher energy prices combined with increased energy production in the current quarter.

Pulp production was 298,000 tonnes for the first quarter of 2020, up 12,000 tonnes, or 4%, from the previous quarter, principally reflecting improved productivity and increased operating days in the current quarter, following a market-related curtailment early in the previous quarter at the Company's Prince George NBSK pulp mill ("PG Pulp Mill").

Pulp shipments were up 23,000 tonnes, or 9%, from the previous quarter, largely due to the aforementioned increase in pulp production quarter-over-quarter combined with the modest improvement in purchasing from China, which outweighed the impact of transportation challenges in the current quarter.

Pulp unit manufacturing costs were modestly lower than the prior quarter, as the benefit of increased production and lower maintenance spend in the current quarter more than offset seasonally higher energy costs. Fibre costs were slightly lower than the previous period primarily reflecting a lower proportion of higher-cost whole log chips consumed and, to a lesser extent, seasonal pricing adjustments.

Operating income in the Company's paper segment was \$6.8 million, up \$1.8 million from the previous quarter, principally reflecting a 8,000 tonnes, or 31%, increase in paper shipments. This was combined with moderately higher paper production accompanied by lower paper unit manufacturing costs, which more than offset the impact of modestly lower paper unit sales realizations. The latter resulted from the carry-over of weak global kraft paper market conditions from the previous quarter into January and February, before recovering somewhat in March.

In response to the significant global impacts of the COVID-19 pandemic, on March 26, 2020, Canfor Pulp announced a series of significant measures, including a three-week curtailment of the Company's Northwood pulp mill in place of the previously scheduled spring maintenance turnaround (postponed until later in 2020). This will result in a reduction of approximately 35,000 tonnes of NBSK pulp production in the second quarter of 2020. The Company also announced the reduction of its planned capital expenditures for 2020 by \$15.0 million to \$25.0 million (in addition to the previously announced \$40.0 million cost containment measures), representing a \$78.0 million decrease from 2019 capital expenditures. This reduction will be realized through the deferral of planned projects and suspension of in-progress initiatives that can be paused without significant impact.

In addition to the COVID-19 related temporary downtime, the Company has maintenance outages currently scheduled at the Northwood NBSK pulp mill and the Taylor BCTMP mill in the third quarter of 2020 with a projected 30,000 tonnes of reduced NBSK pulp production and a projected 5,000 tonnes of reduced BCTMP production, respectively.

Looking forward, the impacts of COVID-19 on global macroeconomics are still unfolding and the Company anticipates market conditions to remain volatile through much of 2020. Global softwood pulp demand is currently projected to be solid through the second quarter of 2020, particularly from China as that region continues to recover from the pandemic, while containment measures across Western Europe and North America are forecast to weigh on market demand for printing and writing paper. While pulp and paper operations are designated as essential services in many regions, it is projected that supply disruptions will continue in various regions as a result of the pronounced effects of COVID-19 on various business sectors, including lumber manufacturers. The current weakness in lumber markets may result in extended sawmill curtailments in the British Columbia Interior, with the risk that lower volumes of sawmill residual chips available to pulp mills may cause additional downtime at the Company's operations.

Bleached kraft paper markets are currently anticipated to be solid through the second quarter of 2020, particularly in North America, as the impact of COVID-19 is projected to lead to increased demand for bleached kraft paper products that meet food grade specifications.



Conrad A. Pinette
Chairman



Don B. Kayne
Chief Executive Officer

Canfor Pulp Products Inc.
First Quarter 2020
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the quarter ended March 31, 2020 relative to the quarters ended December 31, 2019 and March 31, 2019, and the financial position of the Company at March 31, 2020. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended, March 31, 2020 and 2019, as well as the 2019 annual MD&A and the 2019 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2019 (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 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 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 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 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 first quarter of 2020.

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 April 22, 2020.

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.

FIRST QUARTER 2020 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q1 2020	Q4 2019	Q1 2019
Operating income (loss) by segment:			
Pulp	\$ 1.1	\$ (26.8)	\$ 15.5
Paper	\$ 6.8	\$ 5.0	\$ 5.9
Unallocated	\$ (1.8)	\$ (1.7)	\$ (3.3)
Total operating income (loss)	\$ 6.1	\$ (23.5)	\$ 18.1
Add: Amortization ¹	\$ 21.6	\$ 23.6	\$ 22.3
Total operating income before amortization	\$ 27.7	\$ 0.1	\$ 40.4
Add (deduct):			
Working capital movements	\$ (22.6)	\$ 6.2	\$ (34.1)
Defined benefit pension plan contributions, net	\$ (1.4)	\$ (1.4)	\$ (1.1)
Income taxes (paid) received, net	\$ 29.3	\$ (0.1)	\$ (4.0)
Other operating cash flows, net	\$ 6.5	\$ 0.4	\$ (0.6)
Cash from operating activities	\$ 39.5	\$ 5.2	\$ 0.6
Add (deduct):			
Payment of lease obligations	\$ (0.3)	\$ (0.3)	\$ (0.2)
Dividends paid	\$ (4.1)	\$ (4.1)	\$ (4.1)
Finance expenses paid	\$ (1.4)	\$ (1.1)	\$ (0.7)
Capital additions, net	\$ (18.8)	\$ (27.1)	\$ (25.5)
Other, net	\$ 0.1	\$ -	\$ -
Change in cash / operating loans	\$ 15.0	\$ (27.4)	\$ (29.9)
ROIC – Consolidated period-to-date ²	0.9%	(3.0)%	2.4%
Average exchange rate (US\$ per C\$1.00)³	\$ 0.744	\$ 0.758	\$ 0.752

¹ Amortization includes amortization of certain capitalized major maintenance costs.

² Consolidated Return on Invested Capital ("ROIC") is equal to operating income (loss) 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.

³ Source – Bank of Canada (monthly average rate for the period).

The Company reported operating income of \$6.1 million for the first quarter of 2020, up \$29.6 million from the fourth quarter of 2019. Reported results for the first quarter of 2020 included a \$10.7 million recovery in the finished pulp and raw material inventory write-down provision at period end. After adjusting for this, the Company recorded an operating loss of \$4.6 million for the first quarter of 2020, a \$21.9 million improvement from a similarly adjusted operating loss in the previous quarter.

The Company's operating results principally reflected a solid operating performance at the Company's pulp and paper mills, as higher production and a corresponding decline in pulp unit manufacturing costs combined with a 1 cent, or 2%, weaker Canadian dollar, mitigated the impacts of the coronavirus outbreak ("COVID-19") in the latter half of the quarter.

Compared to the first quarter of 2019, operating results decreased \$12.0 million primarily reflecting substantially lower average Northern Bleached Softwood Kraft ("NBSK") pulp and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") US-dollar pricing, which more than offset increased production and shipments, materially lower pulp unit manufacturing costs, and a 1 cent, or 1%, weaker Canadian Dollar.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	Q1 2020	Q4 2019	Q1 2019
Sales	\$ 232.5	\$ 213.1	\$ 255.1
Operating income (loss) before amortization ⁴	\$ 22.0	\$ (4.0)	\$ 36.9
Operating income (loss)	\$ 1.1	\$ (26.8)	\$ 15.5
Average NBSK pulp price delivered to China – US\$ ^{5,6}	\$ 573	\$ 563	\$ 700
Average NBSK pulp price delivered to China – Cdn\$ ^{5,6}	\$ 770	\$ 743	\$ 931
Production – pulp (000 mt)	298	286	274
Shipments – pulp (000 mt)	290	267	259

⁴ Amortization includes amortization of certain capitalized major maintenance costs.

⁵ Per tonne, NBSK pulp list net price delivered to China (as published by Resource Information Systems, Inc. ("RISI")); Average NBSK pulp net price delivered to China in Cdn\$ calculated as average NBSK pulp net 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.

⁶ Effective January 1, 2020, all RISI China market pricing has changed from "Delivered to China – Effective list price" to "Delivered to China – Net price" as distributed through Fastmarkets RISI.

Markets

After a modest rebound in Asian pulp markets early in the quarter, global pulp markets weakened in late February and into March reflecting the spread of COVID-19. Demand for tissue, however, remained solid, which helped to offset weakness elsewhere, particularly in the printing and writing segment. The average US-dollar NBSK pulp list prices to China for the first quarter of 2020 was US\$573 per tonne, up US\$10 per tonne, or 2%, from the fourth quarter of 2019, and down US\$127 per tonne, or 18%, compared to the first quarter of 2019. Prices to other global regions, including North America and Europe, saw slight increases compared to the previous quarter and substantial declines compared to the first quarter of 2019.

Global softwood pulp producer inventories at the end of February 2020 remained well above the balanced range at 37 days⁷ of supply, in line with December 2019 (market conditions are generally considered balanced when inventories are in the 27-34 days of supply range).

Sales

The Company's pulp shipments for the first quarter of 2020 were 290,000 tonnes, up 23,000 tonnes, or 9%, from the previous quarter and up 31,000 tonnes, or 12%, from the first quarter of 2019. Increased shipments in the current quarter principally reflected an increase in pulp production compared to both comparative quarters, combined with the modest improvement in purchasing from China, which outweighed the impact of transportation challenges in the current quarter.

The Company's NBSK pulp unit sales realizations were broadly in line with the prior quarter as slight increases in US-dollar unit sales realizations to most regions and the benefit of the aforementioned weaker Canadian dollar, were offset by the Company's regional grade mix. BCTMP unit sales realizations showed a moderate increase from the previous quarter reflecting a gradual improvement in BCTMP US-dollar prices through the quarter combined with the weaker Canadian dollar.

Average NBSK pulp unit sales realizations were down significantly compared to the first quarter of 2019, reflecting the weaker global pulp market conditions evidenced by a US\$127 per tonne, or 18%, decline in US-dollar NBSK pulp list prices to China, and a decrease in the average US-dollar price to North America by US\$253 per tonne, or 18% (before discounts, which were largely unchanged quarter-over-quarter). Average BCTMP unit sales realizations showed a more moderate decline compared to the first quarter of 2019 largely reflecting lower US-dollar BCTMP pricing quarter-over-quarter combined with the weaker Canadian dollar.

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").

Energy revenues were up compared to the fourth quarter of 2019, largely reflecting seasonally higher energy prices combined with increased energy production in the current quarter. Compared to the first quarter of 2019, higher energy revenues reflected improved energy generation largely due to increased pulp production in the current quarter combined with the benefit of the successful commercialization ramp-up in March 2019 of the Turbo Generator Condensing turbine at the Northwood pulp mill.

Operations

Pulp production was 298,000 tonnes for the first quarter of 2020, up 12,000 tonnes, or 4%, from the previous quarter, principally reflecting improved productivity and increased operating days in the current quarter, following a market-related curtailment early in the previous quarter at the Company's Prince George NBSK pulp mill ("PG Pulp Mill"). Compared to the first quarter of 2019, pulp production was up 24,000 tonnes, or 9%, primarily reflecting more operational disruptions and cold-weather related production challenges in the comparative period.

Pulp unit manufacturing costs were modestly lower than the prior quarter, as the benefit of increased production and lower maintenance spend in the current quarter more than offset seasonally higher energy costs. Fibre costs were slightly lower than the previous period primarily reflecting a lower proportion of higher-cost whole log chips consumed and, to a lesser extent, seasonal pricing adjustments.

Compared to the first quarter of 2019, pulp unit manufacturing costs were materially lower, largely due to improved productivity quarter-over-quarter, combined with lower maintenance spend as well as reduced chemical and energy costs in the current quarter, mainly due to less severe weather challenges in the current period. Fibre costs were down compared to the first quarter of 2019, driven by substantially lower market-based prices for sawmill residual chips (linked to falling Canadian dollar NBSK pulp unit sales realizations), which more than offset an increased proportion of higher-cost whole log chips in the current quarter.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars, unless otherwise noted)	Q1 2020	Q4 2019	Q1 2019
Sales	\$ 42.5	\$ 34.2	\$ 48.5
Operating income before amortization ⁸	\$ 7.5	\$ 5.8	\$ 6.8
Operating income	\$ 6.8	\$ 5.0	\$ 5.9
Production – paper (000 mt)	30	28	35
Shipments – paper (000 mt)	34	26	33

⁸ Amortization includes amortization of certain capitalized major maintenance costs.

Markets

Global kraft paper market softness experienced at the end of 2019 carried into the early part of the current quarter, particularly for offshore markets. As the current quarter progressed, however, demand improved, particularly from North America, as growing uncertainty associated with COVID-19 led to an up-tick in demand for kraft paper products that met food grade specifications.

Sales

The Company's paper shipments in the first quarter of 2020 were 34,000 tonnes, up 8,000 tonnes, from the previous quarter, principally reflecting a drawdown of inventory late in the current quarter driven by a COVID-19-related increase in demand. Paper shipments were broadly in line with the first quarter of 2019.

Paper unit sales realizations in the first quarter of 2020 were slightly lower than the previous quarter, principally reflecting ongoing market weakness earlier in the current quarter and a change in regional sales mix, which more than offset the benefit of the late rise in demand and the aforementioned weaker Canadian dollar. Compared to the first quarter of 2019, paper unit sales realizations were substantially lower primarily due to a deterioration in US-dollar prices quarter-over-quarter.

Operations

Paper production for the first quarter of 2020 was 30,000 tonnes, up 2,000 tonnes from the previous quarter, largely due to increased operating days in the current period following the PG Pulp and Paper mill downtime at the beginning of October, offset in part by reduced productivity reflecting several operational challenges in the current quarter. Compared to the first quarter of 2019, paper production was down 5,000 tonnes, primarily reflecting lower productivity in the current quarter.

Paper unit manufacturing costs were slightly lower than the fourth quarter of 2019, primarily reflecting the benefit of increased production in the current quarter combined with slightly lower slush pulp costs. Compared to the first quarter of 2019, paper unit manufacturing costs were materially lower, primarily reflecting reduced slush pulp costs associated with decreased Canadian dollar NBSK pulp unit sales realizations in the current quarter, offset in part by the impact of reduced production in the current quarter.

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)	Q1 2020	Q4 2019	Q1 2019
Corporate costs	\$ (1.8)	\$ (1.7)	\$ (3.3)
Finance expense, net	\$ (1.6)	\$ (1.6)	\$ (1.5)
Other income (expense), net	\$ 4.9	\$ (1.5)	\$ (1.9)

Corporate costs were \$1.8 million for the first quarter of 2020, broadly in line with the previous quarter and down \$1.5 million from the first quarter of 2019, with the latter period reflecting costs associated with organizational reductions in senior management and higher legal costs.

Net finance expense for the first quarter of 2020 was \$1.6 million, in line with both comparative periods, largely reflecting interest expense associated with the Company's term debt.

Other income, net, of \$4.9 million in the first quarter of 2020 primarily reflected favourable foreign exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income (Loss)

In the first quarter of 2020, the Company recorded a gain of \$5.3 million (before tax) related to changes in the valuation of the Company's employee future benefits plans, largely reflecting a 0.7% increase in the discount rate used to value the employee future benefit plans, driven by an increase in corporate bond credit spreads, partially offset by a lower than anticipated return on plan assets. This compared to a gain of \$0.1 million (before tax) in the fourth quarter of 2019, as unfavourable actuarial experience adjustments were more than offset by a higher than anticipated return on plan assets. In the first quarter of 2019, the Company recorded a loss of \$3.4 million (before tax), largely reflecting a 0.3% decrease in the discount rates used to value the employee future benefit plans.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)	Q1 2020	Q4 2019	Q1 2019
Increase (decrease) in cash and cash equivalents	\$ 12.0	\$ (13.4)	\$ (6.9)
Operating activities	\$ 39.5	\$ 5.2	\$ 0.6
Financing activities	\$ (8.8)	\$ 8.5	\$ 18.0
Investing activities	\$ (18.7)	\$ (27.1)	\$ (25.5)
Ratio of current assets to current liabilities	2.3 : 1	2.1 : 1	2.0 : 1
Net debt to capitalization ⁹	7.1%	9.4%	3.7%
ROIC – Consolidated period-to-date	0.9%	(3.0)%	2.4%

⁹ Net cash to capitalization is equal to net cash divided by net capitalization. Net cash is equal to interest-bearing debt less cash and cash equivalents on hand. Net capitalization is equal to net cash plus total equity.

Operating Activities

Cash generated from operating activities in the first quarter of 2020 was \$39.5 million, up \$34.3 million from the fourth quarter of 2019 and up \$38.9 million from the first quarter of 2019. The increase in operating cash flows compared to the fourth quarter of 2019 largely reflected higher cash earnings and income tax refunds in the current period, offset, in part, by reduced accounts payable and accrued liabilities (timing-related) and increased accounts receivable at the end of the current quarter. Compared to the first quarter of 2019, the increase in operating cash flows primarily reflected income tax refunds received in the current period, combined with favourable changes in non-cash working capital quarter-over-quarter.

Financing Activities

Cash used for financing activities in the first quarter of 2020 was \$8.8 million compared to cash generated of \$8.5 million in the fourth quarter of 2019 and cash generated of \$18.0 million in the first quarter of 2019. Cash used for financing activities in the current quarter principally related to a \$3.0 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). Financing activities in the fourth quarter of 2019 included a \$14.0 million draw down of the Company's operating loan facility, offset in part by payment of a quarterly dividend of \$4.1 million (\$0.0625 per common share). Cash from financing activities in the first quarter of 2019 principally related to a \$23.0 million draw down of the Company's principal operating loan facility, partially offset by a quarterly dividend of \$4.1 million (\$0.0625 per common share).

Investing Activities

Cash used for investing activities of \$18.7 million in the current quarter primarily related to capital expenditures associated with several capital projects including the construction of a raw water treatment plant at the Company's Intercontinental NBSK pulp mill (scheduled to be completed by the end of 2020) as well as maintenance-of-business capital.

Liquidity and Financial Requirements

At March 31, 2020, the Company had a \$110.0 million unsecured operating loan facility, with \$11.0 million drawn in the current quarter and \$13.2 million reserved for several standby letters of credit. At the end of the quarter, the Company had \$85.8 million available and undrawn on its operating loan facility.

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

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

On March 6, 2020, the Company's 2019 normal course issuer bid expired and was not renewed. The Company did not purchase any common shares during the first quarter of 2020.

As at March 31, 2020 and April 22, 2020, there were 65,233,559 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%.

Dividends

Recognizing the current challenging conditions, and in support of the Company's cash preservation efforts, the Board of Directors has decided to suspend the quarterly dividend for the foreseeable future.

OUTLOOK

Pulp and Paper Markets

In response to the significant global impacts of the COVID-19 pandemic, on March 26, 2020, Canfor Pulp announced a series of significant measures, including a three-week curtailment of the Company's Northwood pulp mill in place of the previously scheduled spring maintenance turnaround (postponed until later in 2020). This will result in a reduction of approximately 35,000 tonnes of NBSK pulp production in the second quarter of 2020. The Company also announced the reduction of its planned capital expenditures for 2020 by \$15.0 million to \$25.0 million (in addition to the previously announced \$40.0 million cost containment measures), representing a \$78.0 million decrease from

2019 capital expenditures. This reduction will be realized through the deferral of planned projects and suspension of in-progress initiatives that can be paused without significant impact.

In addition to the COVID-19 related temporary downtime, the Company has maintenance outages currently scheduled at the Northwood NBSK pulp mill and the Taylor BCTMP mill in the third quarter of 2020 with a projected 30,000 tonnes of reduced NBSK pulp production and a projected 5,000 tonnes of reduced BCTMP production, respectively.

Looking forward, the impacts of COVID-19 on global macroeconomics are still unfolding and the Company anticipates market conditions to remain volatile through much of 2020. Global softwood pulp demand is currently projected to be solid through the second quarter of 2020, particularly from China as that region continues to recover from the pandemic, while containment measures across Western Europe and North America are forecast to weigh on market demand for printing and writing paper. While pulp and paper operations are designated as essential services in many regions, it is projected that supply disruptions will continue in various regions as a result of the pronounced effects of COVID-19 on various business sectors, including lumber manufacturers. The current weakness in lumber markets may result in extended sawmill curtailments in the British Columbia Interior, with the risk that lower volumes of sawmill residual chips available to pulp mills may cause additional downtime at the Company's operations.

Bleached kraft paper markets are currently anticipated to be solid through the second quarter of 2020, particularly in North America, as the impact of COVID-19 is projected to lead to increased demand for bleached kraft paper products that meet food grade specifications.

OUTSTANDING SHARES

At April 22, 2020 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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2020, 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 2019 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.

Coronavirus (COVID-19)

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. COVID-19's impact on global markets has been significant through the first quarter of 2020 and as the situation continues to rapidly evolve, the magnitude of its effects on the economy and on Canfor Pulp's financial and operational performance, is uncertain at this time.

As an initial response to the effects of COVID-19, however, Canfor Pulp announced a series of significant operational measures, including the aforementioned three-week curtailment of the Company's Northwood pulp mill, and a \$15.0 million reduction in planned capital spending for 2020.

Significant health and safety measures have been implemented at Canfor Pulp's offices, facilities and work sites, grounded in the recommendations of public health officials. These include restricting all travel, mandating self-isolation for returned travellers and any employees exhibiting symptoms or exposed to the virus, implementing physical distancing parameters between individuals, increasing cleaning and sanitization in workplaces, and where possible, instructing employees to work remotely to reduce interpersonal contact. The pulp and paper sector has been declared an essential service in BC.

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Sales and income (loss) (millions of Canadian dollars)								
Sales	\$ 275.6	\$ 247.5	\$ 216.9	\$ 319.5	\$ 304.0	\$ 289.7	\$ 328.5	\$ 396.4
Operating income (loss) before amortization	\$ 27.7	\$ 0.1	\$ (20.3)	\$ 41.7	\$ 40.4	\$ 36.1	\$ 80.7	\$ 105.1
Operating income (loss)	\$ 6.1	\$ (23.5)	\$ (44.0)	\$ 18.4	\$ 18.1	\$ 15.6	\$ 60.5	\$ 85.4
Net income (loss)	\$ 7.0	\$ (19.5)	\$ (32.4)	\$ 10.6	\$ 10.8	\$ 14.2	\$ 42.9	\$ 63.0
Per common share (Canadian dollars)								
Net income (loss) – basic and diluted	\$ 0.11	\$ (0.30)	\$ (0.50)	\$ 0.16	\$ 0.17	\$ 0.21	\$ 0.66	\$ 0.97
Book value ¹⁰	\$ 8.66	\$ 8.56	\$ 8.92	\$ 9.47	\$ 9.21	\$ 9.14	\$ 11.22	\$ 10.62
Dividends declared	\$ -	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 2.3125	\$ 0.0625
Statistics								
Pulp shipments (000 mt)	290	267	213	288	259	231	262	329
Paper shipments (000 mt)	34	26	27	33	33	32	34	33
Average exchange rate – US\$/Cdn\$	\$ 0.744	\$ 0.758	\$ 0.757	\$ 0.748	\$ 0.752	\$ 0.758	\$ 0.765	\$ 0.774
Average NBSK pulp list price delivered to China (US\$) ¹¹	\$ 573	\$ 563	\$ 555	\$ 630	\$ 700	\$ 803	\$ 877	\$ 900

¹⁰ 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.

¹¹ Effective January 1, 2020, all RISI China market pricing has changed from "Delivered to China – Effective list price" to "Delivered to China – Net price" as distributed through Fastmarkets RISI.

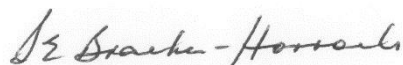
Canfor Pulp Products Inc. Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)	As at March 31, 2020	As at December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 18.0	\$ 6.0
Accounts receivable - Trade	88.6	80.5
- Other	4.0	6.6
Income taxes receivable	-	29.7
Inventories (Note 2)	199.1	193.7
Prepaid expenses and other	20.4	14.8
Total current assets	330.1	331.3
Property, plant and equipment and intangible assets		
	574.6	580.8
Right-of-use assets		
	2.3	2.5
Other long-term assets		
	5.2	6.2
Total assets	\$ 912.2	\$ 920.8
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 131.9	\$ 142.2
Operating loan (Note 3(a))	11.0	14.0
Current portion of lease obligations	1.1	1.0
Total current liabilities	144.0	157.2
Long-term debt (Note 3(b))	50.0	50.0
Lease obligations	1.7	1.9
Retirement benefit obligations (Note 4)	63.4	68.6
Other long-term provisions	7.8	7.1
Deferred income taxes, net	80.2	77.7
Total liabilities	\$ 347.1	\$ 362.5
EQUITY		
Share capital	\$ 480.8	\$ 480.8
Retained earnings	84.3	77.5
Total equity	\$ 565.1	\$ 558.3
Total liabilities and equity	\$ 912.2	\$ 920.8

Contingencies (Note 10)

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

APPROVED BY THE BOARD



Director, S.E. Bracken-Horrocks



Director, C.A. Pinette

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Income

	3 months ended March 31,	
(millions of Canadian dollars, except per share data, unaudited)	2020	2019
Sales	\$ 275.6	\$ 304.0
Costs and expenses		
Manufacturing and product costs	203.4	219.7
Freight and other distribution costs	39.0	36.0
Amortization	21.6	22.3
Selling and administration costs	5.5	7.9
	269.5	285.9
Operating income	6.1	18.1
Finance expense, net	(1.6)	(1.5)
Other income (expense), net	4.9	(1.9)
Net income before income taxes	9.4	14.7
Income tax expense (Note 5)	(2.4)	(3.9)
Net income	\$ 7.0	\$ 10.8
Net income per common share: (in Canadian dollars)		
Basic and diluted (Note 6)	\$ 0.11	\$ 0.17

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 March 31,	
	2020	2019
Net income	\$ 7.0	\$ 10.8
Other comprehensive income (loss)		
Items that will not be recycled through net income:		
Defined benefit plan actuarial gains (losses) (Note 4)	5.3	(3.4)
Income tax recovery (expense) on defined benefit plan actuarial losses/gains (Note 5)	(1.4)	0.9
Other comprehensive income (loss), net of tax	3.9	(2.5)
Total comprehensive income	\$ 10.9	\$ 8.3

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended March 31,	
	2020	2019
Share capital		
Balance at beginning of period	\$ 480.8	\$ 480.9
Balance at end of period	\$ 480.8	\$ 480.9
Retained earnings		
Balance at beginning of period	\$ 77.5	\$ 115.7
Net income	7.0	10.8
Defined benefit plan actuarial gains (losses), net of tax	3.9	(2.5)
Dividends declared	(4.1)	(4.1)
Impact of change in lease accounting policy	-	(0.1)
Balance at end of period	\$ 84.3	\$ 119.8
Total equity	\$ 565.1	\$ 600.7

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended March 31,	
	2020	2019
Cash generated from (used in):		
Operating activities		
Net income	\$ 7.0	\$ 10.8
Items not affecting cash:		
Amortization	21.6	22.3
Income tax expense (Note 5)	2.4	3.9
Employee future benefits expense	0.9	1.0
Finance expense, net	1.6	1.5
Other, net	0.7	0.3
Defined benefit plan contributions, net	(1.4)	(1.1)
Income taxes received (paid), net	29.3	(4.0)
	62.1	34.7
Net change in non-cash working capital (Note 7)	(22.6)	(34.1)
	39.5	0.6
Financing activities		
Payment of lease obligations	(0.3)	(0.2)
Change in operating loan (Note 3(a))	(3.0)	23.0
Finance expenses paid	(1.4)	(0.7)
Dividends paid	(4.1)	(4.1)
	(8.8)	18.0
Investing activities		
Additions to property, plant and equipment and intangible assets, net	(18.8)	(25.5)
Other, net	0.1	-
	(18.7)	(25.5)
Increase (decrease) in cash and cash equivalents*	12.0	(6.9)
Cash and cash equivalents at beginning of period*	6.0	6.9
Cash and cash equivalents at end of period*	\$ 18.0	\$ -

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

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

Canfor Pulp Products Inc. Notes to the Condensed Consolidated Financial Statements

Three months ended March 31, 2020 and 2019
(millions of Canadian dollars unless otherwise noted, unaudited)

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, 2020 and April 22, 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 April 22, 2020.

2. Inventories

(millions of Canadian dollars, unaudited)	As at March 31, 2020	As at December 31, 2019
Pulp	\$ 83.7	\$ 72.8
Paper	25.6	29.7
Wood chips and logs	33.9	35.9
Materials and supplies	55.9	55.3
	\$ 199.1	\$ 193.7

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended March 31, 2020, a \$10.7 million inventory write-down recovery was recognized (three months ended March 31, 2019 - \$0.3 million write-down), eliminating the inventory provision for finished pulp and raw materials at March 31, 2020 (December 31, 2019 – provision of \$10.7 million).

3. Operating Loan and Long-Term Debt

(a) Operating Loan

(millions of Canadian dollars, unaudited)	As at March 31, 2020	As at December 31, 2019
Operating loan facility	\$ 110.0	\$ 110.0
Letters of credit	(13.2)	(13.2)
Operating loan facility drawn	(11.0)	(14.0)
Total available operating loan facility	\$ 85.8	\$ 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 March 31, 2020, the Company was fully in compliance with all covenants relating to its operating loan facility.

(b) Long-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 March 31, 2020, the Company was fully in compliance with all covenants relating to its long-term debt.

4. Employee Future Benefits

For the three months ended March 31, 2020, defined benefit plan actuarial gains of \$5.3 million (before tax) were recognized in other comprehensive income (loss), reflecting a higher discount rate used to value the net defined benefit obligations, offset in part by a lower than anticipated return on plan assets.

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 (loss), principally reflecting a lower discount rate used to value the net defined benefit plan obligations, offset in part by a higher than anticipated return 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, 2020	3.7%	3.7%
December 31, 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 expense are as follows:

(millions of Canadian dollars, unaudited)	3 months ended March 31,	
	2020	2019
Current	\$ (1.4)	\$ (1.5)
Deferred	(1.0)	(2.4)
Income tax expense	\$ (2.4)	\$ (3.9)

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,	
	2020	2019
Income tax expense at statutory rate – 27% (2019 – 27%)	\$ (2.5)	\$ (4.1)
Add: Entities with different income tax rates and other tax adjustments	0.1	0.2
Income tax expense	\$ (2.4)	\$ (3.9)

In addition, a tax expense of \$1.4 million related to actuarial gains on the Company's defined benefit plans was recorded in other comprehensive income (loss) for the three months ended March 31, 2020 (three months ended March 31, 2019 - recovery of \$0.9 million related to actuarial losses).

6. 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,	
	2020	2019
Weighted average number of common shares	65,233,559	65,250,759

During the first quarter of 2020 and 2019, the Company did not purchase any common shares. On March 6, 2020, the Company's normal course issuer bid expired and was not renewed.

As at March 31, 2020 and April 22, 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 March 31,	
	2020	2019
Accounts receivable	\$ (8.0)	\$ (10.9)
Inventories	(5.4)	(5.9)
Prepaid expenses and other	(4.7)	(6.4)
Accounts payable and accrued liabilities	(4.5)	(10.9)
Net change in non-cash working capital	\$ (22.6)	\$ (34.1)

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 March 31, 2020					
Sales from contracts with customers	\$ 232.5	\$ 42.5	\$ 0.6	\$ -	\$ 275.6
Sales to other segments	17.6	-	-	(17.6)	-
Operating income (loss)	1.1	6.8	(1.8)	-	6.1
Amortization	20.9	0.7	-	-	21.6
Capital expenditures ¹	17.7	0.9	0.2	-	18.8
Identifiable assets	816.2	68.2	27.8	-	912.2
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

¹Capital 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,		3 months ended March 31,	
	%	2020	%	2019
Sales by location of customer				
Canada	9	\$ 24.7	6	\$ 19.6
Asia	55	152.2	53	161.5
United States	25	67.9	29	88.0
Europe	4	10.9	5	14.5
Other	7	19.9	7	20.4
	100	\$ 275.6	100	\$ 304.0

9. Related Party Transactions

For the three months ended March 31, 2020, the Company depended on Canfor to provide approximately 69% (three months ended March 31, 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 March 31,	
	2020	2019
Transactions		
Purchase of wood chips and other	\$ 64.2	\$ 70.1

(millions of Canadian dollars, unaudited)	As at March 31, 2020	As at December 31, 2019
Balance Sheet		
Included in accounts payable and accrued liabilities	\$ 23.7	\$ 26.2

10. Contingencies

Coronavirus Outbreak

On March 11, 2020, the World Health Organization declared the coronavirus ("COVID-19") outbreak a pandemic. COVID-19's impact on global markets has been significant through the first quarter of 2020 and as the situation continues to rapidly evolve, the magnitude of its effects on the economy and on Canfor Pulp's financial and operational performance, is uncertain at this time.

As an initial response to the effects of COVID-19, however, Canfor Pulp announced a series of significant operational measures, including the aforementioned three-week curtailment of the Company's Northwood pulp mill, and a reduction in planned capital spending for 2020 by \$15.0 million to \$25.0 million.

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