2020

QUARTER TWO

INTERIM REPORT

FOR THE THREE MONTHS ENDED JUNE 30, 2020

CANFOR CORPORATION

To Our Shareholders

Canfor Corporation reported its second quarter 2020 results:

Overview

- Second quarter of 2020 reported operating income of $97 million, includes $81 million recovery of previous inventory write-downs in the lumber segment
- Adjusted shareholder net income of $83 million, or $0.67 per share
- Vida Group ("Vida") announced agreement to purchase Bergs Timber Production AB ("Bergs") sawmill assets for $43 million plus working capital, which will add 215 million board feet to Vida's annual capacity
- Completed acquisition of Elliott Sawmilling Co., LLC ("Elliott")
- Announced permanent closure of Isle Pierre sawmill, located near Prince George, British Columbia ("BC") due to an insufficient supply of economically viable timber

Financial Results

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

(millions of Canadian dollars, except per share amounts)	**Q2 2020**	Q1 2020	**YTD 2020**	Q2 2019	YTD 2019
Sales	**$ 1,115.3**	$ 1,170.7	**$ 2,286.0**	$ 1,313.0	$ 2,461.7
Reported operating income before amortization	**$ 189.5**	$ 5.6	**$ 195.1**	$ 43.1	$ 59.7
Reported operating income (loss)	**$ 96.9**	$ (88.8)	**$ 8.1**	$ (50.1)	$ (114.4)
Adjusted operating income before amortization[1]	**$ 150.7**	$ 103.3	**$ 254.0**	$ 88.2	$ 179.7
Adjusted operating income (loss)[1]	**$ 58.1**	$ 8.9	**$ 67.0**	$ (5.0)	$ 5.6
Net income (loss)[2]	**$ 60.7**	$ (70.0)	**$ (9.3)**	$ (48.8)	$ (135.4)
Net income (loss) per share, basic and diluted[2]	**$ 0.48**	$ (0.56)	**$ (0.07)**	$ (0.38)	$ (1.08)
Adjusted net income (loss)[2]	**$ 83.4**	$ (26.2)	**$ 57.2**	$ (12.0)	$ (45.9)
Adjusted net income (loss) per share, basic and diluted[2]	**$ 0.67**	$ (0.21)	**$ 0.46**	$ (0.10)	$ (0.37)

[1] Adjusted for countervailing and anti-dumping duties expense ($19.2 million in Q2 2020, $44.4 million in Q1 2020, $45.2 million in Q2 2019), inventory write-downs and recoveries ($72.4 net write-down recovery in Q2 2020, $52.3 million net write-down in Q1 2020, $11.6 million net write-down recovery in Q2 2019), and restructuring costs related to mill closures and curtailments ($14.4 million in Q2 2020, $1.0 million in Q1 2020, $11.5 million in Q2 2019).
[2] Attributable to equity shareholders of the Company.

For the second quarter of 2020, the Company reported operating income of $96.9 million, $185.7 million higher than the operating loss of $88.8 million reported for the first quarter of 2020, reflecting materially higher earnings in the lumber segment, offset in part by a moderate decline in pulp and paper segment earnings.

Results in the second quarter of 2020 included an $80.6 million recovery in the lumber and log inventory write-down provisions, partly offset by an $8.2 million inventory write-down for the pulp and paper segment, as well as a countervailing ("CVD") and anti-dumping duties ("ADD") expense of $19.2 million and restructuring costs of $14.4 million, largely related to the announced permanent closure of the Company's Isle Pierre sawmill (which will take effect in the third quarter following an orderly wind down of operations). After adjusting for the aforementioned items, the Company's operating income was $58.1 million for the second quarter of 2020, up $49.2 million from similarly adjusted operating income of $8.9 million in the first quarter of 2020.

Despite the significant disruptive impacts of the coronavirus outbreak ("COVID-19") across the Canfor organization, adjusted lumber segment operating results compared favourably with the previous quarter, reflecting significantly improved market conditions and earnings from the Company's Southern Yellow Pine ("SYP") and European Spruce/Pine/Fir ("SPF") operations, as well as a more modest improvement in its Western SPF operating results.

As a result of a significant reduction in demand due to COVID-19 in April, the Company's Western SPF region took extensive production curtailments in April and May. Following a return to more normal operating rates in June, along with improved US-dollar prices and a 3% weaker Canadian dollar, the region had much improved operating results towards the end of the quarter. The Company's US South region also experienced downtime early in the quarter as a result of the pandemic, but benefited from significant SYP price gains during May and June, as a sharp pick-up in demand outpaced available supply, and this, in combination with strong operating rates, contributed to a solid financial performance in the current quarter. The Company's European SPF operational results also saw a marked improvement in the latter part of the quarter, more than offsetting the impact of COVID-19 related curtailments earlier in the period.

Reflecting the pronounced effects from COVID-19, US housing starts fell dramatically in April, dropping to their lowest levels since early 2015 (averaging 934,000 units). Through May and June, lumber markets rebounded, with both repair and remodeling and new home construction activity seeing a strong uptick. Against a backdrop of lean supply chain inventories, the unexpected increase in demand resulted in a spike in prices, starting in May for most SYP dimensions followed by Western SPF in June. June housing starts averaged 1,186,000 units, and, for the second quarter of 2020, on a seasonally adjusted basis, averaged 1,044,000 units, down 30% from the previous quarter, largely due to the aforementioned drop early in the current quarter. In Canada, home construction and repair and remodeling activity was more muted; housing starts averaged 191,000 units on a seasonally adjusted basis in the second quarter of 2020, down 9% from the previous quarter, largely reflecting slowing activity in all major Canadian cities.

Offshore demand for Western SPF products improved slightly through the second quarter as trade barriers enacted at the onset of COVID-19 were slowly lifted and the impacts of the virus lessened. Towards the end of the quarter, however, both domestic and export demand in China declined. In Japan and Korea, markets improved modestly quarter-over-quarter, but softened near the end of the quarter. Western European and Scandinavian lumber demand was strong through the latter part of the second quarter, driven largely by the strength in the repair and remodeling sector.

Despite the sharp decline in the benchmark North American Random Lengths Western SPF 2x4 #2&Btr price in April to a low of US$282 per Mfbm, prices inched steadily upwards in May before climbing considerably in June, ending the quarter at US$432 per Mfbm. The Company's Western SPF lumber unit sales realizations remained relatively flat quarter-over-quarter, as favourable offshore unit sales realizations, decreased CVD and ADD expenses and a weaker Canadian dollar in the current quarter substantially offset a US$42 per Mfbm, or 11%, decline in the average Western SPF 2x4 #2&Btr benchmark price to US$357 per Mfbm.

The significant increase in lumber prices towards the end of the quarter and into July, combined with improved market demand over the same period, resulted in the full reversal of the Company's previously recorded inventory write-down provision related to the Company's Western SPF operations of $80.6 million at the end of the second quarter of 2020.

The Company's SYP lumber unit sales realizations were significantly higher than the prior quarter, principally reflecting a US$77 per Mfbm, or 20%, increase in the SYP East 2x4 #2 price to US$463 per Mfbm, with similarly strong price gains seen for other wider dimensions.

The Company's European SPF unit sales realizations were modestly higher quarter-over-quarter, as a slight decline in the average European indicative SPF lumber benchmark price (an internally generated benchmark based on delivered price to the largest continental market), to SEK 3,254 per Mfbm, was more than offset by a 3% weaker Canadian dollar (compared to the Swedish Krona ("SEK")).

Total lumber shipments, at 1.15 billion board feet, were 8% lower than the previous quarter, largely reflecting the widespread production curtailments in April and May; as demand improved during the quarter, shipments outpaced production across all of the Company's operating regions.

Total lumber production, at 1.04 billion board feet, was 19% below the prior quarter principally reflecting COVID-19 market-related curtailments across all three of the Company's operating regions, but most notably in the BC Interior. Western SPF production decreased 30% from the previous quarter. SYP production experienced a 12% decline quarter-over-quarter, and, European SPF production was 5% lower than the prior period.

Lumber unit manufacturing and product costs in all operating regions were broadly in line with the previous quarter, as the incremental effect of lower production volumes was offset by lower market-related log costs and reduced discretionary spending in the current quarter. In addition, the Company's Western SPF operations were able to access the Canada Emergency Wage Subsidy established by the federal government due to meeting the criteria of a reduction in revenue. The program enabled the Company to bring its employees back to work and restart its BC sawmills by covering a portion of employee wage costs.

In the second quarter of 2020, the Company's 70% owned Vida subsidiary entered into an agreement to purchase three sawmills from Bergs for $43.0 million plus working capital. The transaction is expected to close in the third quarter of 2020, subject to customary closing conditions. Also during the current quarter, the Company completed the second phase purchase of Elliott Sawmilling Co., LLC ("Elliott") on May 31, 2020, bringing its ownership interest to 100%.

Results in the pulp and paper segment for the second quarter of 2020 reflected direct and indirect impacts of COVID-19 on global markets, and more specifically Canfor Pulp Products Inc.'s ("CPPI") pulp and paper business. Global pulp prices improved during April, resulting largely from increased demand for at-home tissue coupled with supply disruptions, principally in Latin America and Australasia; however, prices came increasingly under pressure in the back half of the current quarter reflecting a sharp decline in printing and writing demand combined with more moderated tissue purchasing activity. For the second quarter as a whole, Canadian-dollar pulp unit sales realizations showed a modest increase compared to the previous quarter, boosted by slightly higher Northern Bleached Softwood Kraft ("NBSK") prices to North America, improved prices for Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") and a weaker Canadian dollar. The effect of COVID-19 on lumber sawmill operating rates in the BC Interior, particularly in April and May, materially impacted residual fibre supply to CPPI's Prince George ("PG") based operations, resulting in a three-week curtailment at CPPI's Northwood NBSK pulp mill ("Northwood") in the current quarter, as well as increased fibre costs reflecting a higher proportion of more expensive whole log chips.

Pulp production was 260,000 tonnes for the second quarter of 2020, down 38,000 tonnes, or 13%, from the previous quarter, principally driven by decreased operating days in the current quarter due to the three-week COVID-19 related curtailment at Northwood, which reduced pulp production by 35,000 tonnes. Improved productivity at CPPI's Taylor BCTMP mill, which set new record-high production volumes in the current quarter, largely offset operational disruptions at CPPI's PG pulp mill in June.

Pulp shipments were down 42,000 tonnes, or 14%, from the previous quarter, mainly due to the aforementioned decrease in pulp production quarter-over-quarter, combined with a 13,000-tonne vessel slippage at the end of June into early July 2020.

Pulp unit manufacturing costs were slightly higher than the prior quarter as the effects of increased fibre costs and the impact of reduced production in the current quarter were largely offset by seasonally lower energy costs and decreased planned maintenance spending. Fibre costs were moderately higher than the previous period primarily due to a larger proportion of higher-cost whole log chips as a result of sawmill curtailments in the current quarter.

At June 30, 2020, on a consolidated basis, the Company had total net debt of $856.0 million, down $214.0 million from the end of the previous quarter, and available liquidity of $809.3 million. Available liquidity improved by $304.5 million during the current quarter reflecting significantly higher cash earnings, a seasonal unwind of log inventories in Western Canada, various cash conservation initiatives undertaken in response to COVID-19, as well as an increase in the principal amount of the Company's revolving credit facility from $100.0 million to $200.0 million during the period. The $200.0 million revolving facility remains undrawn and has terms that are largely consistent with those of Canfor's existing operating loan facility. This incremental liquidity, combined with cost conservation initiatives, a disciplined approach to cash management and materially reduced capital spending through the balance of 2020, will support the Company's efforts to preserve its solid balance sheet position.

Despite the significant impacts of the pandemic through the second quarter, lumber fundamentals have proven to be resilient, with a stronger than anticipated recovery evident in pending home sales, housing starts, repair and remodel spend, as well as sustained increases in home purchase mortgage applications. Looking forward, prices are forecast to reflect continued strong demand and current low inventory levels through the third quarter of 2020.

Lumber prices to Asian-Pacific markets through the same period are expected to remain relatively unchanged. European lumber markets are projected to remain solid through the third quarter, reflecting a strong order file and steady demand in that region.

In the pulp and paper segment, recognizing the effects on fibre supply from COVID-19 related sawmill curtailments in the second quarter, on July 6, 2020, CPPI commenced a four-week curtailment of CPPI's PG and Intercontinental Pulp mills, which will reduce CPPI's production output in the third quarter by approximately 38,000 tonnes of NBSK pulp and 12,000 tonnes of paper.

In addition to COVID-19 related downtime, CPPI has a maintenance outage currently scheduled at its Northwood mill in September 2020, which will continue into October to complete a capital upgrade to extend the useful life of Northwood's number five recovery boiler ("RB5"). This Northwood outage will result in 48,000 tonnes of reduced NBSK pulp production, 30,000 tonnes of which is currently forecast for the third quarter of 2020. CPPI's Taylor BCTMP mill is currently scheduled to complete its maintenance outage in the third quarter of 2020 with a projected 5,000 tonnes of reduced BCTMP production.

Looking forward, CPPI anticipates global softwood pulp demand will remain weak through the third quarter of 2020, against a backdrop of tepid demand for most pulp products, elevated inventory levels and the ongoing weakness in demand for printing and writing paper.

Conrad A. Pinette
Chairman

Don B. Kayne
President and Chief Executive Officer

Canfor Corporation
Second Quarter 2020
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the quarter ended June 30, 2020 relative to the quarters ended March 31, 2020 and June 30, 2019, and the financial position of the Company at June 30, 2020. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended June 30, 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 Canfor'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 and Adjusted Operating Income (Loss) which Canfor considers to be a relevant indicator for measuring trends in the performance of each of its operating segments and the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. Reference is also made to Adjusted Shareholder Net Income (Loss) (calculated as Shareholder Net Income (Loss) less specific items affecting comparability with prior periods – for the full calculation, see the reconciliation included in the section "Analysis of Specific Material Items Affecting Comparability of Net Income (Loss)") and Adjusted Shareholder Net Income (Loss) per Share (calculated as Adjusted Shareholder Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization and Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder 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, Canfor's Operating Income (Loss) before Amortization, Adjusted Operating Income (Loss), Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder 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 Shareholder 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 second 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; the coronavirus outbreak and opportunities available to or pursued by Canfor.

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at July 23, 2020.

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.

SECOND QUARTER 2020 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except ratios)	Q2 2020	Q1 2020	YTD 2020	Q2 2019	YTD 2019
Operating income (loss) by segment:					
Lumber	**$ 107.4**	$ (89.1)	**$ 18.3**	$ (60.9)	$ (133.4)
Pulp and Paper	**$ (6.3)**	$ 6.1	**$ (0.2)**	$ 18.4	$ 36.5
Unallocated and Other	**$ (4.2)**	$ (5.8)	**$ (10.0)**	$ (7.6)	$ (17.5)
Total operating income (loss)	**$ 96.9**	$ (88.8)	**$ 8.1**	$ (50.1)	$ (114.4)
Add: Amortization[1]	**$ 92.6**	$ 94.4	**$ 187.0**	$ 93.2	$ 174.1
Total operating income before amortization	**$ 189.5**	$ 5.6	**$ 195.1**	$ 43.1	$ 59.7
Add (deduct):					
Working capital movements	**$ 54.0**	$ (76.5)	**$ (22.5)**	$ 141.3	$ (22.0)
Restructuring, mill closure, and severance costs paid	**$ (2.0)**	$ (2.0)	**$ (4.0)**	$ -	$ -
Defined benefit plan contributions, net	**$ (3.8)**	$ (5.3)	**$ (9.1)**	$ (6.0)	$ (10.7)
Income taxes received (paid), net	**$ 42.5**	$ 28.8	**$ 71.3**	$ 8.2	$ (1.4)
Adjustment to accrued duties[2]	**$ (9.6)**	$ 11.3	**$ 1.7**	$ 7.9	$ 11.0
Other operating cash flows, net[3]	**$ 27.0**	$ 31.3	**$ 58.3**	$ 10.5	$ 19.2
Cash from (used in) operating activities	**$ 297.6**	$ (6.8)	**$ 290.8**	$ 205.0	$ 55.8
Add (deduct):					
Phased acquisition of Elliott[4]	**$ (44.6)**	$ -	**$ (44.6)**	$ (60.5)	$ (60.5)
Capital additions, net	**$ (31.4)**	$ (53.1)	**$ (84.5)**	$ (82.0)	$ (156.7)
Finance expenses paid	**$ (13.7)**	$ (13.3)	**$ (27.0)**	$ (14.4)	$ (21.6)
Proceeds (repayment) of term debt, net	**$ (0.4)**	$ 0.6	**$ 0.2**	$ (0.2)	$ 231.3
Distributions paid to non-controlling interests	**$ -**	$ (1.7)	**$ (1.7)**	$ (10.5)	$ (15.5)
Proceeds received from sale of Vavenby forest tenure	**$ -**	$ 56.5	**$ 56.5**	$ -	$ -
Acquisition of Vida, net of cash acquired, including holdback	**$ -**	$ -	**$ -**	$ -	$ (572.0)
Other, net[3]	**$ (4.8)**	$ (1.8)	**$ (6.6)**	$ (12.2)	$ (31.7)
Change in cash / operating loans	**$ 202.7**	$ (19.6)	**$ 183.1**	$ 25.2	$ (570.9)
ROIC – Consolidated period-to-date[5]	**3.1%**	(2.7)%	**0.4%**	(1.7)%	(4.5)%
Average exchange rate (US$ per C$1.00)[6]	**$ 0.722**	$ 0.744	**$ 0.733**	$ 0.748	$ 0.750
Average exchange rate (SEK per C$1.00)[6]	**6.983**	7.203	**7.091**	7.059	6.981

Q2 2020 includes one month of Elliott results following the May 31, 2020 acquisition.
[1] Amortization includes amortization of certain capitalized major maintenance costs.
[2] Adjusted to true-up anti-dumping duties expensed for accounting purposes to current accrual rates.
[3] Further information on cash flows may be found in the Company's unaudited interim consolidated financial statements.
[4] Phased acquisition of Elliott is net of cash acquired and includes the term loan and line of credit.
[5] 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) and excluding non-controlling interest, divided by the average invested capital during the period. Invested capital represents total assets excluding cash and total liabilities excluding term debt, retirement benefit obligations, long-term deferred reforestation obligations, and deferred taxes.
[6] Source – Bank of Canada (monthly average rate for the period).

Analysis of Specific Material Items Affecting Comparability of Shareholder Net Income (Loss)

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)		Q2 2020		Q1 2020		YTD 2020		Q2 2019		YTD 2019
Shareholder net income (loss), as reported	**$**	**60.7**	$	(70.0)	**$**	**(9.3)**	$	(48.8)	$	(135.4)
Foreign exchange (gain) loss on term debt and duty deposits recoverable	**$**	**(4.7)**	$	13.1	**$**	**8.4**	$	(2.9)	$	(2.1)
Countervailing and anti-dumping duties expense, net	**$**	**14.0**	$	32.4	**$**	**46.4**	$	33.0	$	59.5
(Gain) loss on derivative financial instruments	**$**	**2.9**	$	(2.4)	**$**	**0.5**	$	(1.7)	$	23.7
Restructuring, mill closure and severance costs, net	**$**	**10.5**	$	0.7	**$**	**11.2**	$	8.4	$	8.4
Net impact of above items	**$**	**22.7**	$	43.8	**$**	**66.5**	$	36.8	$	89.5
Adjusted shareholder net income (loss)	**$**	**83.4**	$	(26.2)	**$**	**57.2**	$	(12.0)	$	(45.9)
Shareholder net income (loss) per share (EPS), as reported	**$**	**0.48**	$	(0.56)	**$**	**(0.07)**	$	(0.38)	$	(1.08)
Net impact of above items per share	**$**	**0.19**	$	0.35	**$**	**0.53**	$	0.29	$	0.71
Adjusted shareholder net income (loss) per share	**$**	**0.67**	$	(0.21)	**$**	**0.46**	$	(0.10)	$	(0.37)

For the second quarter of 2020, the Company reported operating income of $96.9 million, $185.7 million higher than the operating loss of $88.8 million reported for the first quarter of 2020, reflecting materially higher earnings in the lumber segment, offset in part by a moderate decline in pulp and paper segment earnings.

Results in the second quarter of 2020 included an $80.6 million recovery in the lumber and log inventory write-down provisions, partly offset by an $8.2 million inventory write-down for the pulp and paper segment, as well as a countervailing ("CVD") and anti-dumping duties ("ADD") expense of $19.2 million and restructuring costs of $14.4 million, largely related to the announced permanent closure of the Company's Isle Pierre sawmill (which will take effect in the third quarter following an orderly wind down of operations). After adjusting for the aforementioned items, the Company's operating income was $58.1 million for the second quarter of 2020, up $49.2 million from similarly adjusted operating income of $8.9 million in the first quarter of 2020.

Despite the significant disruptive impacts of the coronavirus outbreak ("COVID-19") across the Canfor organization, adjusted lumber segment operating results compared favourably with the previous quarter, reflecting significantly improved market conditions and earnings from the Company's Southern Yellow Pine ("SYP") and European Spruce/Pine/Fir ("SPF") operations, as well as a more modest improvement in its Western SPF operating results.

Results in the pulp and paper segment for the second quarter of 2020 reflected direct and indirect impacts of COVID-19 on global markets, and more specifically Canfor Pulp Products. Inc.'s ("CPPI") pulp and paper business. For the second quarter as a whole, Canadian-dollar pulp unit sales realizations showed a modest increase compared to the previous quarter, boosted by slightly higher Northern Bleached Softwood Kraft ("NBSK") prices to North America, improved prices for Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") and a 2 cent, or 3%, weaker Canadian dollar. The effect of COVID-19 on lumber sawmill operating rates in the British Columbia ("BC") Interior, particularly in April and May, materially impacted residual fibre supply to CPPI's Prince George ("PG") based operations, resulting in a three-week curtailment at CPPI's Northwood NBSK pulp mill ("Northwood") in the current quarter, as well as increased fibre costs reflecting a higher proportion of more expensive whole log chips.

The current quarter's reported operating income was $147.0 million higher than the operating loss of $50.1 million reported for the second quarter of 2019, reflecting a $168.3 million increase in lumber segment earnings and a $24.7 million decrease in earnings for the pulp and paper segment. The higher lumber segment earnings primarily reflected increased Western SPF and SYP US-dollar pricing, boosted by a 3 cent, or 3%, weaker Canadian dollar. These factors, combined with the aforementioned inventory write-down recovery, more than offset the impact of lower production and shipments, particularly in Western Canada, in the current quarter.

Pulp and paper segment results decreased $24.7 million from the second quarter of 2019, primarily reflecting lower average NBSK pulp and BCTMP US-dollar pricing, and the aforementioned Northwood curtailment, which more than offset the weaker Canadian Dollar in the current quarter.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	**Q2 2020**	Q1 2020	**YTD 2020**	Q2 2019	YTD 2019
Sales[7]	**$ 864.6**	$ 895.2	**$ 1,759.8**	$ 993.5	$ 1,838.2
Operating income (loss) before amortization[7]	**$ 180.1**	$ (16.6)	**$ 163.5**	$ 8.8	$ (5.3)
Operating income (loss) [7]	**$ 107.4**	$ (89.1)	**$ 18.3**	$ (60.9)	$ (133.4)
Countervailing and anti-dumping duties, net[8]	**$ 19.2**	$ 44.4	**$ 63.6**	$ 45.2	$ 81.5
Inventory write-down (recovery)	**$ (80.6)**	$ 63.0	**$ (17.6)**	$ (25.0)	$ 13.6
Restructuring, mill closure and severance costs, net[9]	**$ 14.4**	$ 1.0	**$ 15.4**	$ 11.5	$ 11.5
Adjusted operating income (loss)	**$ 60.4**	$ 19.3	**$ 79.7**	$ (29.2)	$ (26.8)
Average Western SPF 2x4 #2&Btr lumber price in US$[10]	**$ 357**	$ 399	**$ 378**	$ 333	$ 353
Average Western SPF 2x4 #2&Btr lumber price in Cdn$[10]	**$ 494**	$ 536	**$ 515**	$ 445	$ 471
Average SYP 2x4 #2 lumber price in US$[11]	**$ 463**	$ 386	**$ 425**	$ 393	$ 405
Average European indicative SPF lumber price in SEK[12]	**3,254**	3,352	**3,303**	4,003	4,060
Average European indicative SPF lumber price in US$[12]	**$ 336**	$ 346	**$ 341**	$ 424	$ 436
Average European indicative SPF lumber price in Cdn$[12]	**$ 466**	$ 466	**$ 466**	$ 567	$ 582
US housing starts (thousand units SAAR)[13]	**1,044**	1,466	**1,264**	1,256	1,234
Production – Western SPF lumber (MMfbm)[14]	**441**	628	**1,069**	763	1,559
Production – SYP lumber (MMfbm)[14]	**321**	364	**685**	354	719
Production – European SPF lumber (MMfbm)[14]	**278**	293	**571**	267	358
Shipments – Western SPF lumber (MMfbm)[15]	**531**	574	**1,105**	847	1,590
Shipments – SYP lumber (MMfbm)[15]	**350**	363	**713**	350	702
Shipments – European SPF lumber (MMfbm)[15]	**273**	314	**587**	278	373

Q2 2020 includes one month of Elliott results following the May 31, 2020 acquisition date.

[7] Q2 2020 includes sales of $227.2 million, operating income of $12.4 million, and operating income before amortization of $29.3 million from European SPF lumber operations (Q1 2020 – sales of $227.9 million, operating income of $5.4 million, and operating income before amortization of $21.6 million; Q2 2019 – sales of $236.5 million, operating income of $9.8 million, and operating income before amortization of $25.9 million). Operating income from the European SPF operations in Q2 2020 includes $10.4 million (Q1 2020 - $10.0 million; Q2 2019 - $10.2 million) in incremental amortization and other expenses driven by the purchase price allocation at the acquisition date.

[8] Adjusted for countervailing and anti-dumping duties expensed for accounting purposes.

[9] Adjusted for restructuring, mill closure and severance costs, net, primarily related to announced permanent curtailments at Vavenby in Q2 2019 and Isle Pierre in Q2 2020, as well as the net loss recognized on sale of Vavenby tenure in Q1 2020 and gain on sale of other non-operating assets in the Prince George region in Q2 2020.

[10] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.); Average Western SPF 2x4 #2&Btr lumber price in Cdn$ calculated as average Western SPF 2x4 #2&Btr lumber price in US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average for the period.

[11] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).

[12] European indicative lumber price is an internally generated benchmark based on delivered price to the largest continental market; Average European indicative SPF lumber price in US$ and Cdn$ calculated as average European indicative lumber price in SEK multiplied by the average exchange rate – US$ and Cdn$ per SEK1.00, respectively, according to Bank of Canada monthly average rate for the period.

[13] Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").

[14] Excluding production of trim blocks.

[15] Canfor, Vida or Elliott produced lumber, including lumber purchased for remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

Markets

Reflecting the pronounced effects from COVID-19, US housing starts fell dramatically in April, dropping to their lowest levels since early 2015 (averaging 934,000 units). Through May and June, lumber markets rebounded, with both repair and remodeling and new home construction activity seeing a strong uptick. Against a backdrop of lean supply chain inventories, the unexpected increase in demand resulted in a spike in prices, starting in May for most SYP dimensions followed by Western SPF in June. June housing starts averaged 1,186,000 units, and, for the second quarter of 2020, on a seasonally adjusted basis, averaged 1,044,000 units, down 30% from the previous quarter, largely due to the aforementioned drop early in the current quarter. In Canada, home construction and repair and remodeling activity was more muted; housing starts averaged 191,000 units on a seasonally adjusted basis in the second quarter of 2020, down 9% from the previous quarter, largely reflecting slowing activity in all major Canadian cities.

Offshore demand for Western SPF products improved slightly through the second quarter as trade barriers enacted at the onset of COVID-19 were slowly lifted and the impacts of the virus lessened. Towards the end of the quarter, however, both domestic and export demand in China declined. In Japan and Korea, markets improved modestly quarter-over-quarter, but softened near the end of the quarter. Western European and Scandinavian lumber demand was strong through the latter part of the second quarter, driven largely by the strength in the repair and remodeling sector.

<u>Sales</u>

Sales revenues for the lumber segment for the second quarter of 2020 were $864.6 million, compared to $895.2 million in the previous quarter and $993.5 million for the second quarter of 2019. The 3% decrease in sales revenue compared to the prior quarter was primarily driven by significantly lower Western SPF sales revenue, partially offset by higher sales revenue across the Company's SYP operations; European SPF sales revenue was broadly in line with the previous quarter. Sales revenues from the Company's Western SPF operations, principally reflected an 7% decrease in shipment volumes. The Company's SYP operations' sales revenues improved significantly in the current quarter with increased SYP benchmark pricing more than offsetting the impact of a 4% decline in shipments. Sales revenues from the Company's European SPF operations were broadly in line with the prior quarter as reduced European SPF shipments were offset by a modest increase in European SPF unit sales realizations in the current quarter.

Sales revenues decreased 13% relative to the second quarter of 2019, primarily reflecting lower Western SPF shipment volumes, and to a lesser extent, a decline in European SPF benchmark pricing, offset in part by higher Western SPF and SYP benchmark pricing and a weaker Canadian dollar (compared to both the US dollar and Swedish Krona ("SEK")).

Total lumber shipments, at 1.15 billion board feet, were 8% lower than the previous quarter, largely reflecting the widespread production curtailments in April and May; as demand improved during the quarter, shipments outpaced production across all of the Company's operating regions.

Compared to the second quarter of 2019, lumber shipments were down significantly, principally driven by a 42% decrease in Western SPF production quarter-over-quarter; SYP and European SPF shipments were broadly in line with the comparative period, primarily reflecting a drawdown of inventories in the current quarter.

Despite the sharp decline in the benchmark North American Random Lengths Western SPF 2x4 #2&Btr price in April to a low of US$282 per Mfbm, prices inched steadily upwards in May before climbing considerably in June, ending the quarter at US$432 per Mfbm. The Company's Western SPF lumber unit sales realizations remained relatively flat quarter-over-quarter, as favourable offshore unit sales realizations, decreased CVD and ADD expenses and a weaker Canadian dollar in the current quarter substantially offset a US$42 per Mfbm, or 11%, decline in the average Western SPF 2x4 #2&Btr benchmark price to US$357 per Mfbm.

The Company's SYP lumber unit sales realizations were significantly higher than the prior quarter, principally reflecting a US$77 per Mfbm, or 20%, increase in the SYP East 2x4 #2 price to US$463 per Mfbm, with similarly strong price gains seen for other wider dimensions.

The Company's European SPF unit sales realizations were modestly higher quarter-over-quarter, as a slight decline in the average European indicative SPF lumber benchmark price (an internally generated benchmark based on delivered price to the largest continental market), to SEK 3,254 per Mfbm, was more than offset by a 3% weaker Canadian dollar (compared to the SEK).

The Company's Western SPF lumber unit sales realizations compared favourably to the second quarter of 2019, principally reflecting a US$24 per Mfbm, or 7%, increase in Western SPF 2x4 #2&Btr pricing, combined with a weaker Canadian dollar. The average North American Random Lengths SYP East 2x4 #2 price was up US$70 per Mfbm, or 18%, compared to the 2019 comparative period, with similar increases seen in SYP lumber unit sales realizations. European SPF lumber unit sales realizations were moderately lower compared to the second quarter of 2019 reflecting a SEK 749 per Mfbm, or 19%, decline in the average European indicative SPF benchmark lumber price moderated, in part, by a higher-value product mix and a 1% weakening of the Canadian dollar against the SEK.

Other revenues for the Company's lumber segment (which are primarily comprised of residual fibre, pulp log and pellets sales, as well as the Company's European operations' other lumber-related revenues) moderately decreased compared to both comparative periods largely driven by COVID-19 impacts on operating rates.

Operations

Total lumber production, at 1.04 billion board feet, was 19% below the prior quarter principally reflecting COVID-19 market-related curtailments across all three of the Company's operating regions. Western SPF production decreased 30% from the previous quarter. SYP production experienced a 12% decline quarter-over-quarter following the implementation of variable shift schedules and downtime at several mills through April and early May. European SPF production was 5% lower than the prior quarter, as capacity reductions at two mills were somewhat offset by solid productivity at the remaining European SPF mills.

Compared to the second quarter of 2019, total lumber production was down 25%, principally reflecting the aforementioned curtailments, most notably in the BC region and to a lesser extent in the US South. European SPF production was slightly up quarter-over-quarter as solid productivity later in the current quarter more than offset the impact of COVID-19 related curtailments earlier in the period.

Lumber unit manufacturing and product costs in all operating regions were broadly in line with both comparative periods, as the incremental effect of lower production volumes was more than offset by lower market-related log costs and reduced discretionary spending in the current quarter. In addition, the Company's Western SPF operations were able to access the Canada Emergency Wage Subsidy ("CEWS") established by the federal government due to meeting the criteria of a required reduction in revenue. The program enabled the Company to bring its employees back to work and restart its BC sawmills by covering a portion of employee wage costs.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[16]

(millions of Canadian dollars, unless otherwise noted)		**Q2 2020**		Q1 2020		**YTD 2020**		Q2 2019		YTD 2019
Sales	**$**	**250.7**	$	275.5	**$**	**526.2**	$	319.5	$	623.5
Operating income before amortization[17]	**$**	**13.3**	$	27.7	**$**	**41.0**	$	41.7	$	82.1
Operating income (loss)	**$**	**(6.3)**	$	6.1	**$**	**(0.2)**	$	18.4	$	36.5
Average NBSK pulp price delivered to China – US$[18, 19]	**$**	**572**	$	573	**$**	**573**	$	630	$	665
Average NBSK pulp price delivered to China – Cdn$[18, 19]	**$**	**793**	$	770	**$**	**782**	$	842	$	887
Production – pulp (000 mt)		**260**		298		**558**		300		574
Production – paper (000 mt)		**33**		30		**63**		36		71
Shipments – pulp (000 mt)		**248**		290		**538**		288		547
Shipments – paper (000 mt)		**36**		34		**70**		33		66

16 Includes 100% of Canfor Pulp Products Inc., which is consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both NBSK pulp and BCTMP.
17 Amortization includes amortization of certain capitalized major maintenance costs.
18 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.
19 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

Global pulp prices improved during April, resulting largely from increased demand for at-home tissue coupled with supply disruptions, principally in Latin America and Australasia; however, prices came increasingly under pressure in the back half of the current quarter driven by a sharp decline in printing and writing demand combined with more moderated tissue purchasing activity. The average US-dollar NBSK pulp list price to China for the second quarter of 2020 was US$572 per tonne, broadly in line with the first quarter of 2020, and down US$58 per tonne, or 9%, compared to the second quarter of 2019. Prices to other global regions, including North America and Europe, lagged the pricing pressure experienced in China, and saw slight increases compared to the previous quarter.

Global softwood pulp producer inventories at the end of June 2020 were significantly above the balanced range at 42[20] days of supply, an increase of six days supply compared to March 2020 (market conditions are generally considered balanced when inventories are in the 27-34 days of supply range).

Global kraft paper market demand was steady through most of the second quarter of 2020, as COVID-19 led to an up-tick in demand for food grade kraft paper products, particularly from North America.

<u>Sales</u>

Pulp shipments for the second quarter of 2020 were 248,000 tonnes, down 42,000 tonnes, or 14%, from the previous quarter and down 40,000 tonnes, or 14%, from the second quarter of 2019. Decreased shipments in the current quarter principally reflected a 13% decrease in production compared to both comparative quarters, combined with a 13,000-tonne vessel slippage at the end of June into early July 2020.

NBSK pulp unit sales realizations experienced a modest increase compared to the prior quarter as the benefit of the aforementioned weaker Canadian dollar, combined with a US$31 per tonne, or 3%, increase in the average US-dollar price to North America (before discounts, which were largely unchanged quarter-over-quarter), and, to a lesser extent, the timing of shipments (versus orders). Average BCTMP unit sales realizations showed solid gains from the previous quarter reflecting the weaker Canadian dollar, combined with higher BCTMP US-dollar prices through most of the current quarter, due in part to COVID-19 curtailments in the Australasia region, before declining sharply in June in the face of weak demand.

Average NBSK pulp unit sales realizations were down significantly compared to the second quarter of 2019, reflecting the ongoing weakness in global pulp market conditions since mid-2019, evidenced by a US$58 per tonne, or 9%, decline in US-dollar NBSK pulp list prices to China and a decrease in the average US-dollar price to North America of US$134 per tonne, or 10% (before discounts, which were up slightly quarter-over-quarter), offset in part by the weaker Canadian dollar over the same period. Average BCTMP unit sales realizations showed a modest increase compared to the second quarter of 2019 reflecting slightly higher US-dollar BCTMP pricing quarter-over-quarter combined with the weaker Canadian dollar.

Energy revenues were down compared to the first quarter of 2020, largely due to seasonally lower energy prices combined with decreased energy production in the current quarter primarily associated with the production curtailment at Northwood. Compared to the second quarter of 2019, marginally lower energy revenues reflected a decline in energy generation due to the aforementioned decrease in pulp production in the current quarter.

Paper shipments in the second quarter of 2020 were 36,000 tonnes, up 2,000 tonnes from the prior quarter, largely due to increased paper production in the current quarter. Compared to the second quarter of 2019, paper shipments were up 3,000 tonnes, primarily reflecting the timing of shipments quarter-over-quarter.

Paper unit sales realizations in the second quarter of 2020 were slightly higher than the previous quarter, principally reflecting steady US-dollar pricing in North America and a weaker Canadian dollar. Compared to the second quarter of 2019, paper unit sales realizations were substantially lower primarily due to a global deterioration in US-dollar prices quarter-over-quarter.

<u>Operations</u>

Pulp production was 260,000 tonnes for the second quarter of 2020, down 38,000 tonnes, or 13%, from the previous quarter, principally driven by decreased operating days in the current quarter due to the three-week COVID-19 related curtailment at Northwood, which reduced pulp production by 35,000 tonnes. Improved productivity at CPPI's Taylor BCTMP mill, which set new record-high production volumes in the current quarter, largely offset operational disruptions at CPPI's PG pulp mill in June.

Compared to the second quarter of 2019, pulp production was down 40,000 tonnes, or 13%, primarily reflecting the impact of quarter-over-quarter downtime, including the aforementioned curtailment in the current quarter, offset in part by the scheduled maintenance outages at CPPI's Intercontinental NBSK pulp and Taylor BCTMP mills in the comparative period, which reduced pulp production by 11,000 tonnes and 6,000 tonnes, respectively. To a lesser extent, pulp production in the current quarter also reflected a modest decrease in operating rates at all NBSK pulp mills due to tight fibre supply, compounded by the impacts of COVID-19, compared to the second quarter of 2019.

[20] 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").

Pulp unit manufacturing costs were slightly higher than the prior quarter as the effects of increased fibre costs and the impact of reduced production in the current quarter were largely offset by seasonally lower energy costs and decreased planned maintenance spending. Fibre costs were moderately higher than the previous period primarily due to a larger proportion of higher-cost whole log chips as a result of sawmill curtailments in the current quarter. Compared to the second quarter of 2019, pulp unit manufacturing costs were marginally lower, primarily due to a decline in fibre costs, principally reflecting 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 production for the second quarter of 2020 was 33,000 tonnes, up 3,000 tonnes from the previous quarter, largely due to improved productivity in the current quarter following several operational challenges in the first quarter of 2020. Compared to the second quarter of 2019, paper production was down 3,000 tonnes, primarily reflecting a reduced operating rate due to ongoing COVID-19 fibre supply challenges compared to the second quarter of 2019.

Paper unit manufacturing costs were modestly higher than the first quarter of 2020, largely due to moderately higher slush pulp costs (tied to increased Canadian dollar NBSK pulp unit sales realizations), offset in part by the benefit of increased production in the current quarter and to a lesser extent, reduced spend on maintenance (timing-related). Compared to the second quarter of 2019, paper unit manufacturing costs were significantly lower, primarily reflecting lower slush pulp costs, offset in part by the impact of reduced production in the current quarter.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)	**Q2 2020**	Q1 2020	**YTD 2020**	Q2 2019	YTD 2019
Operating income (loss) of Panels operations[21]	**$ 1.0**	$ (0.6)	**$ 0.4**	$ (0.4)	$ (0.9)
Corporate costs	**$ (5.2)**	$ (5.2)	**$ (10.4)**	$ (7.2)	$ (16.6)
Finance expense, net	**$ (13.4)**	$ (15.7)	**$ (29.1)**	$ (14.6)	$ (25.1)
Foreign exchange gain (loss) on term debt and duties recoverable, net	**$ 5.3**	$ (14.7)	**$ (9.4)**	$ 3.2	$ 2.0
Gain (loss) on derivative financial instruments	**$ (4.5)**	$ 4.0	**$ (0.5)**	$ 2.6	$ (25.8)
Other income (expense), net	**$ 4.2**	$ 7.3	**$ 11.5**	$ (1.0)	$ 0.8

[21] The Panels operations include the Company's PolarBoard oriented strand board ("OSB") plant, which is currently indefinitely idled and its Tackama plywood plant, which has been permanently closed.

Corporate costs of $5.2 million for the second quarter of 2020 were in line with the previous quarter. Compared to the second quarter of 2019, corporate costs were down $2.0 million primarily reflecting reduced corporate office and general administrative expenses in the current quarter.

Net finance expense of $13.4 million for the second quarter of 2020 was down $2.3 million from the previous quarter, largely reflecting lower interest expense following repayments of amounts drawn on the Company's operating loan facilities during the current quarter. Compared to the second quarter of 2019, net finance expense was down $1.2 million largely reflecting a decrease in interest expense quarter-over-quarter due to the higher debt levels in the comparative period resulting from the Vida Group ("Vida") acquisition and first phase acquisition of Elliott in 2019.

In the second quarter of 2020, the Company recognized a foreign exchange gain on its US-dollar term debt held by Canadian entities, offset, to a degree, by a loss on US-dollar denominated net duty deposits recoverable due to the strengthening of the Canadian dollar at the end of the quarter (see further discussion on the term debt financing in the "Liquidity and Financial Requirements" section).

At times, the Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in lumber prices, energy costs, interest and foreign exchange rates. In the second quarter of 2020, the Company recorded a net loss of $4.5 million related to its derivative instruments, primarily reflecting unrealized mark-to-market losses, and to a lesser extent, realized losses, on SEK forward foreign exchange contracts during the quarter, as well as unrealized losses on lumber futures contracts and interest rate swaps (gain of $4.0 million in the first quarter of 2020). The net loss of $4.5 million in the second quarter of 2020 was in contrast to a net gain of $2.6 million in the second quarter of 2019, with the latter period reflecting mark-to-market gains recognized in relation to the Company's foreign exchange derivative instruments.

Other income, net, of $4.2 million in the second quarter of 2020 primarily reflected unfavourable foreign exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income (Loss)

The following table summarizes Canfor's Other Comprehensive Income (Loss) for the comparable periods:

(millions of Canadian dollars)	**Q2 2020**	Q1 2020	**YTD 2020**	Q2 2019	YTD 2019
Defined benefit actuarial gain (loss), net of tax	**$ (15.4)**	$ 8.8	**$ (6.6)**	$ 9.0	$ 3.7
Foreign exchange translation differences for foreign operations, net of tax	**$ 15.4**	$ 52.8	**$ 68.2**	$ (25.0)	$ (28.7)
Other comprehensive income (loss), net of tax	**$ -**	$ 61.6	**$ 61.6**	$ (16.0)	$ (25.0)

In the second quarter of 2020, the Company recorded a loss of $21.0 million (before tax) related to changes in the valuation of the Company's employee future benefit plans, largely reflecting a 0.7% decrease in the discount rate used to value the employee future benefit plans, partially offset by a return on plan assets greater than the discount rate. This compared to a gain of $12.0 million (before tax) in the first quarter of 2020, as a 0.7% increase in the discount rate used to value the employee future benefit plans was partially offset by a return on plan assets lower than the discount rate. In the second quarter of 2019, the Company recorded a gain of $12.4 million (before tax), primarily reflecting a 50% reduction in the Medical Services Plan ("MSP") premiums realized in the second quarter of 2019, and, to a lesser extent, a return on plan assets greater than the discount rate, partially offset by a 0.3% decrease in the discount rate.

In addition, the Company recorded an accounting gain of $15.4 million in the second quarter of 2020 related to foreign exchange differences for foreign operations, with the weakening of the Canadian dollar relative to the SEK at the end of the quarter more than offsetting the impact of the strengthening of the Canadian dollar relative to the US-dollar at the end of the quarter. This compared to a gain of $52.8 million in the first quarter of 2020 and a loss of $25.0 million in the second quarter of 2019.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except ratios)	**Q2 2020**	Q1 2020	**YTD 2020**	Q2 2019	YTD 2019
Increase (decrease) in cash and cash equivalents[22]	**$ 45.0**	$ 53.6	**$ 98.6**	$ (20.1)	$ (212.7)
Operating activities	**$ 297.6**	$ (6.8)	**$ 290.8**	$ 205.0	$ 55.8
Financing activities	**$ (178.0)**	$ 55.8	**$ (122.2)**	$ (74.9)	$ 528.5
Investing activities	**$ (74.6)**	$ 4.6	**$ (70.0)**	$ (150.2)	$ (797.0)
Ratio of current assets to current liabilities			**1.6:1**		1.5:1
Net debt (cash) to capitalization[23]			**28.8%**		30.2%

[22] Increase (decrease) in cash and cash equivalents shown before foreign exchange translation on cash and cash equivalents.
[23] Net debt to capitalization is equal to net debt divided by net capitalization. Net debt is equal to interest-bearing debt less cash and cash equivalents on hand. Net capitalization is equal to net debt plus total equity.

The changes in the components of these cash flows are discussed in the following sections:

Operating Activities

Operating activities generated $297.6 million of cash in the second quarter of 2020, compared to cash used of $6.8 million in the previous quarter and cash generated of $205.0 million in the second quarter of 2019. The increase in operating cash flows from the previous quarter primarily reflected materially higher cash earnings, and to a lesser extent, the receipt of income tax refunds in the current quarter, combined with a decrease in finished lumber inventories due to curtailments, a seasonal draw-down of log inventories during the spring break-up period in Western Canada, partially offset by a decrease in trade accounts payable. Compared to the second quarter of 2019, the increase in operating cash flows primarily reflected significantly higher cash earnings and the aforementioned receipt of income tax refunds in the current quarter, offset in part by a slower draw-down in log inventories, due to curtailments, in the current period.

Financing Activities

Financing activities in the current quarter largely consisted of repayments of amounts drawn on the Company's operating loan facilities, resulting in cash used of $178.0 million. Cash generated by financing activities of $55.8 million in the first quarter of 2020 primarily reflected draw-downs of the Company's operating loan facilities to finance working capital requirements. In the second quarter of 2019, cash used for financing activities mainly reflected repayments of the Company's operating loan facilities to finance the Vida and Elliott acquisitions in 2019.

Investing Activities

Cash used for investing activities in the second quarter of 2020 was $74.6 million, compared to cash generated of $4.6 million for the previous quarter and cash used of $150.2 million for the second quarter of 2019. Investing activities in the current quarter included the completion of the second phase (51%) purchase of Elliott, for $50.4 million (US$37.0 million). Cash used in the second quarter of 2019 primarily included capital expenditures of $82.0 million, the first phase (49%) purchase of Elliott for $52.0 million (US$38.5 million), and an advance to a third party of $19.5 million in exchange for an annual fibre supply.

Capital additions in the second quarter of 2020 were $31.4 million, down $21.7 million from the previous quarter and down $50.6 million from the second quarter of 2019. Current quarter capital expenditures were limited following the implementation of COVID-19 cost containment measures and largely consisted of maintenance-of-business expenditures.

Liquidity and Financial Requirements

Operating Loans – Consolidated

At June 30, 2020, on a consolidated basis, including CPPI and Vida, the Company had cash of $161.8 million, with $300.6 million drawn on its operating loan facilities, and an additional $77.8 million reserved for several standby letters of credit. Total available undrawn operating loans at the end of the quarter were $647.5 million, including the undrawn committed revolving credit facility and undrawn facilities for letters of credit.

Operating Loans – Canfor, excluding Vida and CPPI

On June 11, 2020, Canfor, excluding Vida and CPPI, increased the principal of its committed revolving credit facility by $100.0 million to $200.0 million, with a maturity date of June 10, 2021. Terms of the revolving facility are largely consistent with those of Canfor's existing committed operating loan facility.

Interest is payable on Canfor's committed operating loan and revolving facilities, excluding Vida and CPPI, at floating rates based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio.

As at June 30, 2020, Canfor, excluding CPPI and Vida, had available operating loan facilities totaling $820.0 million, with $285.0 million drawn on its principal committed operating loan facility and $64.9 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans. No amounts were drawn on the $200.0 million committed revolving credit facility as at June 30, 2020.

Operating Loans – Vida

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 1.0% to 1.3%. Vida also has separate overdraft facilities with fixed interest rates ranging from 1.7% to 4.7%. Vida's operating loan facilities have certain financial covenants including minimum equity and interest coverage ratios.

At June 30, 2020, Vida had $15.6 million drawn on its $95.9 million operating loan facilities, leaving $80.3 million available and undrawn at the end of the quarter.

Operating Loans – CPPI

At June 30, 2020, CPPI had a $110.0 million operating loan facility, with $12.9 million reserved for several standby letters of credit under the operating loan facility, leaving $97.1 million available and undrawn on its operating loan facility at the end of the current quarter.

The terms of CPPI'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 lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin.

Term Debt

Canfor's and CPPI's term debt, excluding Vida, is unsecured. Vida's term debt is secured by its property, plant and equipment assets.

On February 10, 2020, Vida increased its primary SEK denominated floating interest rate term debt facility from SEK 74.5 million to SEK 129.5 million, which is repayable in instalments up to December 31, 2020.

The Company's consolidated net debt to total capitalization at the end the second quarter of 2020 was 28.8%. For Canfor, excluding CPPI, net debt to capitalization at the end of the second quarter of 2020 was 34.2%.

Net Debt and Liquidity - Consolidated

At June 30, 2020, on a consolidated basis, including CPPI and Vida, the Company had total net debt of $856.0 million, down $214.0 million from the end of the previous quarter, and available liquidity of $809.3 million. Available liquidity improved by $304.5 million during the current quarter.

Debt Covenants

Canfor, Vida and CPPI remained in compliance with all covenants relating to their respective operating loan facilities and term debt during the quarter and expect to remain so for the foreseeable future. Substantially all borrowings of Vida and CPPI are non-recourse to other entities within the Company.

Shares Outstanding

As at June 30, 2020 and July 23, 2020, there were 125,219,400 common shares of the Company outstanding, and Canfor's ownership interest in CPPI and Vida was at 54.8% and 70.0%, respectively.

Phased Acquisition of Elliott

On May 31, 2019, the Company completed the first of a two-phase purchase of Elliott with an aggregate purchase price of US$110.5 million (paid in three instalments), plus a net working capital adjustment of $4.1 million (US$3.1 million). Elliott is located in Estill, South Carolina, and adds 210 million board feet of high-value SYP lumber production capacity. The first phase (49%) purchase of $52.0 million (US$38.5 million, the first instalment) was recognized as an equity investment, accounted for under the equity method.

On May 31, 2020, Canfor completed the second phase (51%) purchase for $50.4 million (US$37.0 million, the second instalment), bringing its ownership interest in Elliott to 100%. As a result, the equity investment was derecognized, and Elliott's results were consolidated into Canfor's on the May 31, 2020 acquisition date.

The term loan facility advanced to Elliott as part of the first phase purchase of $6.4 million (US$4.7 million) was derecognized on the May 31, 2020 acquisition date and deducted from the final instalment payment of $47.7 million (US$35.0 million, the third instalment), due on May 31, 2021.

Details of the acquisition are provided under Note 13 of Canfor's consolidated interim financial statements.

Restructuring Costs and Assets Held for Sale

On March 9, 2020, the Company completed the sale of the Vavenby forest tenure to Interfor Corporation for net proceeds of $56.5 million, including working capital and other adjustments. The pending sale of the remaining Vavenby sawmill assets and liabilities to a third-party for $6.0 million is currently expected to close in the second half of 2020.

On May 20, 2020, the Company announced its plans to permanently close its Isle Pierre sawmill located in Prince George, BC during the third quarter of 2020. As a result, restructuring costs of $9.0 million, largely comprised of severance costs, have been recognized in the second quarter. Following the announced closure, the Isle Pierre sawmill assets were assessed for impairment, resulting in a $5.4 million impairment loss (before tax) recorded in the second quarter.

Commitments

On June 17, 2020, Canfor announced that Vida had entered into an agreement to purchase three sawmills from Bergs Timber Production AB (“Bergs”) for $43.0 million plus working capital. The three mills are located in Vimmerby, Mörlunda and Orrefors, Sweden, and will add approximately 215 million board feet to Vida’s annual capacity. With additional investment, Vida anticipates the production capacity of the mills can be increased to 300 million board feet. The transaction is expected to close during the third quarter of 2020, subject to customary closing conditions. With the closure of this transaction and future capital investment, Canfor’s annual lumber production capacity will increase to approximately 6.7 billion board feet, with European SPF lumber capacity of approximately 1.5 billion board feet.

OUTLOOK

Lumber

Despite the significant impacts of the pandemic through the second quarter, lumber fundamentals have proven to be resilient, with a stronger than anticipated recovery evident in pending home sales, housing starts, repair and remodel spend, as well as sustained increases in home purchase mortgage applications. Looking forward, prices are forecast to reflect continued strong demand and current low inventory levels through the third quarter of 2020.

Lumber prices to Asian-Pacific markets through the same period are expected to remain relatively unchanged. European lumber markets are projected to remain solid through the third quarter, reflecting a strong order file and steady demand in that region.

Pulp and Paper

In the pulp and paper segment, recognizing the effects on fibre supply from COVID-19 related sawmill curtailments in the second quarter, on July 6, 2020, CPPI commenced a four-week curtailment of its PG and Intercontinental Pulp mills, which will reduce CPPI’s production output in the third quarter by approximately 38,000 tonnes of NBSK pulp and 12,000 tonnes of paper.

In addition to COVID-19 related downtime, CPPI has a maintenance outage currently scheduled at its Northwood mill in September 2020, which will continue into October to complete a capital upgrade to extend the useful life of Northwood’s RB5. This Northwood outage will result in 48,000 tonnes of reduced NBSK pulp production, 30,000 tonnes of which is currently forecast for the third quarter of 2020. CPPI’s Taylor BCTMP mill is currently scheduled to complete its maintenance outage in the third quarter of 2020 with a projected 5,000 tonnes of reduced BCTMP production.

Looking forward, CPPI anticipates global softwood pulp demand will remain weak through the third quarter of 2020, against a backdrop of tepid demand for most pulp products, elevated inventory levels and the ongoing weakness in demand for printing and writing paper. Bleached kraft paper markets are anticipated to be relatively stable in North America through the third quarter of 2020, with a steady projected demand for bleached kraft paper products that meet food grade specifications. Offshore bleached kraft paper markets are anticipated to soften slightly over the same period.

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, certain accounts receivable, pension and other employee future benefit plans, asset retirement and deferred reforestation obligations, and the determination of ADD expensed and recorded as recoverable 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, other than the possibility of material effects to the income statement from the Company’s estimated ADD net duty recoverable as discussed in Note 4 of the consolidated interim financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2020, the Company included the design of disclosure controls and procedures (“DC&P”) and internal controls over financial reporting (“ICFR") for its Vida operations within its ICFR framework. Based on procedures performed, there were no matters arising that materially affected, or would be reasonably likely to materially affect, the design and/or operating effectiveness of such controls for the Company, when taken as a whole.

Other than the aforementioned, there were no changes in the Company's DC&P and ICFR during the quarter ended June 30, 2020 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.

In addition to exposure to changes in product prices and foreign exchange, the Company's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions, as well as forest fires, can cause logging curtailments, which can affect the supply of raw materials to sawmills and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for lumber products, is generally stronger in the spring and fall months. Shipment volumes are affected by these factors as well as by global supply and demand conditions. Net income is also impacted by fluctuations in Canadian dollar exchange rates, and the revaluation to the period end rate of US-dollar and SEK denominated working capital balances, US-dollar and SEK denominated debt 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 much of 2020 and in response, Canfor announced a series of measures. For the lumber segment, these measures included extensive temporary capacity reductions across all three of the Company's sawmill operating regions during the second quarter. In the pulp and paper segment, CPPI's Northwood pulp mill was curtailed for three-weeks in the second quarter, with a four-week curtailment in July at the PG 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, reduced capital spending and cost containment measures have been implemented across the Company to help mitigate the effects of the pandemic.

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

To help mitigate the effects of COVID-19, on March 27, 2020, the CEWS program was introduced by the Government of Canada, reimbursing eligible employers who have experienced the required reduction in revenue for a portion of remuneration paid out to employees during the pandemic. As at June 30, 2020, the Company had received a CEWS reimbursement of $5.3 million, with an additional $18.6 million recognized as a receivable for claims under the program in the first half of 2020, recognized as an offset to wage expense.

The Company will continue to closely monitor COVID-19 and its eligibility under the CEWS program. 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.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 1,115.3**	$ 1,170.7	$ 1,105.2	$ 1,091.4	$ 1,313.0	$ 1,148.7	$ 1,028.1	$ 1,323.3
Operating income (loss)	**$ 96.9**	$ (88.8)	$ (59.6)	$ (120.3)	$ (50.1)	$ (64.3)	$ (79.1)	$ 201.8
Net income (loss)	**$ 62.4**	$ (65.2)	$ (46.1)	$ (103.9)	$ (40.7)	$ (79.0)	$ (46.0)	$ 144.9
Shareholder net income (loss)	**$ 60.7**	$ (70.0)	$ (39.1)	$ (88.5)	$ (48.8)	$ (86.6)	$ (52.4)	$ 125.3
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ 0.48**	$ (0.56)	$ (0.31)	$ (0.71)	$ (0.38)	$ (0.69)	$ (0.42)	$ 0.98
Book value[24]	**$ 13.51**	$ 13.04	$ 13.14	$ 13.33	$ 14.15	$ 14.71	$ 16.42	$ 16.66
Common Share Repurchases								
Share volume repurchased (000 shares)	**-**	-	-	-	-	-	1,123	2,283
Shares repurchased (millions of Canadian dollars)	**$ -**	$ -	$ -	$ -	$ -	$ -	$ 20.6	$ 63.7
Statistics								
Lumber shipments (MMfbm)[25]	**1,154**	1,251	1,224	1,232	1,475	1,190	1,114	1,291
Pulp shipments (000 mt)	**248**	290	267	213	288	259	231	262
Average exchange rate – US$/Cdn$	**$ 0.722**	$ 0.744	$ 0.758	$ 0.757	$ 0.748	$ 0.752	$ 0.758	$ 0.765
Average exchange rate – SEK/Cdn$	**6.983**	7.203	7.281	7.262	7.059	6.905	6.842	6.844
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 357**	$ 399	$ 380	$ 356	$ 333	$ 372	$ 327	$ 482
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 463**	$ 386	$ 406	$ 410	$ 393	$ 416	$ 457	$ 488
Average European indicative SPF lumber price in SEK[26]	**3,254**	3,352	3,540	3,652	4,003	4,111	4,235	4,284
Average NBSK pulp list price delivered to China (US$)[27]	**$ 572**	$ 573	$ 563	$ 555	$ 630	$ 700	$ 803	$ 877

Q2 2020 includes one month of Elliott results following the May 31, 2020 acquisition date.

[24] 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.

[25] Canfor-produced lumber, including lumber purchased for remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

[26] European indicative lumber price is an internally generated benchmark based on delivered price to the largest continental market.

[27] 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.

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

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except for per share amounts)	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Shareholder net income (loss), as reported	**$ 60.7**	$ (70.0)	$ (39.1)	$ (88.5)	$ (48.8)	$ (86.6)	$ (52.4)	$ 125.3
Foreign exchange (gain) loss on term debt and duty deposits recoverable, net	**$ (4.7)**	$ 13.1	$ (3.6)	$ 2.1	$ (2.9)	$ 0.8	$ 2.1	$ (0.7)
Countervailing and anti-dumping duties expense, net	**$ 14.0**	$ 32.4	$ 31.9	$ 39.1	$ 33.0	$ 26.5	$ 28.8	$ 31.1
(Gain) loss on derivative financial instruments	**$ 2.9**	$ (2.4)	$ 0.2	$ 0.1	$ (1.7)	$ 25.4	$ (6.5)	$ 1.2
Restructuring, mill closure and severance costs, net	**$ 10.5**	$ 0.7	$ 2.4	$ 4.7	$ 8.4	$ -	$ -	$ -
Net impact of above items	**$ 22.7**	$ 43.8	$ 30.9	$ 46.0	$ 36.8	$ 52.7	$ 24.4	$ 31.6
Adjusted shareholder net income (loss)	**$ 83.4**	$ (26.2)	$ (8.2)	$ (42.5)	$ (12.0)	$ (33.9)	$ (28.0)	$ 156.9
Shareholder net income (loss) per share (EPS), as reported	**$ 0.48**	$ (0.56)	$ (0.31)	$ (0.71)	$ (0.38)	$ (0.69)	$ (0.42)	$ 0.98
Net impact of above items per share	**$ 0.19**	$ 0.35	$ 0.25	$ 0.37	$ 0.29	$ 0.42	$ 0.19	$ 0.25
Adjusted net income (loss) per share	**$ 0.67**	$ (0.21)	$ (0.06)	$ (0.34)	$ (0.10)	$ (0.27)	$ (0.23)	$ 1.23

Canfor Corporation
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	**$**	**161.8**	$	60.1
Accounts receivable - Trade		**289.4**		259.7
- Other (Note 15)		**68.3**		41.3
Income taxes receivable		**59.4**		112.5
Inventories (Note 3)		**756.3**		803.9
Prepaid expenses and other		**92.3**		64.0
Assets held for sale (Note 7)		**6.2**		69.0
Total current assets		**1,433.7**		1,410.5
Property, plant and equipment		**1,959.4**		1,974.5
Right-of-use assets		**79.8**		68.5
Timber licenses		**438.6**		445.7
Goodwill and other intangible assets		**566.3**		447.3
Long-term investments and other (Note 4)		**100.5**		173.7
Retirement benefit surplus (Note 6)		**1.6**		5.9
Deferred income taxes, net		**2.2**		0.9
Total assets	**$**	**4,582.1**	$	4,527.0
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**459.7**	$	478.4
Operating loans (Note 5(a))		**300.6**		382.0
Current portion of deferred reforestation obligations		**51.0**		51.0
Current portion of term debt (Note 5(b))		**17.3**		13.0
Other current liability (Note 13)		**41.4**		13.0
Current portion of lease obligations		**25.7**		21.3
Income tax payable		**-**		5.5
Liabilities held for sale (Note 7)		**0.5**		3.3
Total current liabilities		**896.2**		967.5
Term debt (Note 5(b))		**699.9**		681.7
Retirement benefit obligations (Note 6)		**241.4**		237.0
Lease obligations		**60.0**		50.9
Deferred reforestation obligations		**80.5**		56.3
Other long-term liabilities		**34.2**		32.9
Put liability (Note 8)		**123.9**		111.9
Deferred income taxes, net		**326.4**		319.9
Total liabilities	**$**	**2,462.5**	$	2,458.1
EQUITY				
Share capital	**$**	**987.9**	$	987.9
Contributed surplus and other equity		**(89.2)**		(82.8)
Retained earnings		**658.8**		674.3
Accumulated other comprehensive income		**134.1**		65.9
Total equity attributable to equity shareholders of the Company		**1,691.6**		1,645.3
Non-controlling interests		**428.0**		423.6
Total equity	**$**	**2,119.6**	$	2,068.9
Total liabilities and equity	**$**	**4,582.1**	$	4,527.0

Contingencies (Note 15)

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, C.A. Pinette

Canfor Corporation
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	**$ 1,115.3**	$ 1,313.0	**$ 2,286.0**	$ 2,461.7
Costs and expenses				
Manufacturing and product costs	**729.8**	982.6	**1,675.5**	1,886.2
Freight and other distribution costs	**136.9**	198.9	**285.1**	358.9
Countervailing and anti-dumping duty expense, net (Note 14)	**19.2**	45.2	**63.6**	81.5
Amortization	**92.6**	93.2	**187.0**	174.1
Selling and administration costs	**25.5**	31.7	**51.3**	63.9
Restructuring, mill closure and severance costs, net (Note 7)	**14.4**	11.5	**15.4**	11.5
	1,018.4	1,363.1	**2,277.9**	2,576.1
Operating income (loss)	**96.9**	(50.1)	**8.1**	(114.4)
Finance expense, net	**(13.4)**	(14.6)	**(29.1)**	(25.1)
Foreign exchange gain (loss) on term debt	**6.0**	4.6	**(11.3)**	5.1
Foreign exchange gain (loss) on duties recoverable, net	**(0.7)**	(1.4)	**1.9**	(3.1)
Gain (loss) on derivative financial instruments (Note 8)	**(4.5)**	2.6	**(0.5)**	(25.8)
Other income (expense), net	**4.2**	(1.0)	**11.5**	0.8
Net income (loss) before income taxes	**88.5**	(59.9)	**(19.4)**	(162.5)
Income tax recovery (expense) (Note 9)	**(26.1)**	19.2	**16.6**	42.8
Net income (loss)	**$ 62.4**	$ (40.7)	**$ (2.8)**	$ (119.7)
Net income (loss) attributable to:				
Equity shareholders of the Company	**$ 60.7**	$ (48.8)	**$ (9.3)**	$ (135.4)
Non-controlling interests	**1.7**	8.1	**6.5**	15.7
Net income (loss)	**$ 62.4**	$ (40.7)	**$ (2.8)**	$ (119.7)
Net income (loss) per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 10)	**$ 0.48**	$ (0.38)	**$ (0.07)**	$ (1.08)

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

Canfor Corporation
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)	**$ 62.4**	$ (40.7)	**$ (2.8)**	$ (119.7)
Other comprehensive income (loss)				
Items that will not be recycled through net income (loss):				
Defined benefit plan actuarial gains (losses) (Note 6)	**(21.0)**	12.4	**(9.0)**	5.1
Income tax recovery (expense) on defined benefit plan actuarial losses/gains (Note 9)	**5.6**	(3.4)	**2.4**	(1.4)
	(15.4)	9.0	**(6.6)**	3.7
Items that may be recycled through net income (loss):				
Foreign exchange translation of foreign operations, net of tax	**15.4**	(25.0)	**68.2**	(28.7)
Other comprehensive income (loss), net of tax	**-**	(16.0)	**61.6**	(25.0)
Total comprehensive income (loss)	**$ 62.4**	$ (56.7)	**$ 58.8**	$ (144.7)
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	**$ 62.9**	$ (69.6)	**$ 52.7**	$ (164.1)
Non-controlling interests	**(0.5)**	12.9	**6.1**	19.4
Total comprehensive income (loss)	**$ 62.4**	$ (56.7)	**$ 58.8**	$ (144.7)

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

Canfor Corporation
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	**$ 987.9**	$ 987.9	**$ 987.9**	$ 987.9
Balance at end of period	**$ 987.9**	$ 987.9	**$ 987.9**	$ 987.9
Contributed surplus and other equity				
Balance at beginning of period	**$ (85.1)**	$ (86.7)	**$ (82.8)**	$ 31.9
Put liability related to Vida acquisition (Note 8)	**(4.1)**	-	**(6.4)**	(118.6)
Balance at end of period	**$ (89.2)**	$ (86.7)	**$ (89.2)**	$ (86.7)
Retained earnings				
Balance at beginning of period	**$ 611.3**	$ 838.7	**$ 674.3**	$ 931.1
Net income (loss) attributable to equity shareholders of the Company	**60.7**	(48.8)	**(9.3)**	(135.4)
Defined benefit plan actuarial gains (losses), net of tax	**(13.2)**	4.2	**(6.2)**	-
Impact of change in lease accounting policy	**-**	-	**-**	(1.6)
Balance at end of period	**$ 658.8**	$ 794.1	**$ 658.8**	$ 794.1
Accumulated other comprehensive income				
Balance at beginning of period	**$ 118.7**	$ 101.8	**$ 65.9**	$ 105.5
Foreign exchange translation of foreign operations, net of tax	**15.4**	(25.0)	**68.2**	(28.7)
Balance at end of period	**$ 134.1**	$ 76.8	**$ 134.1**	$ 76.8
Total equity attributable to equity shareholders of the Company	**$ 1,691.6**	$ 1,772.1	**$ 1,691.6**	$ 1,772.1
Non-controlling interests				
Balance at beginning of period	**$ 428.5**	$ 456.1	**$ 423.6**	$ 283.5
Net income attributable to non-controlling interests	**1.7**	8.1	**6.5**	15.7
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of tax	**(2.2)**	4.8	**(0.4)**	3.7
Distributions to non-controlling interests	**-**	(10.5)	**(1.7)**	(15.5)
Impact of change in lease accounting policy	**-**	-	**-**	(0.1)
Acquisition of non-controlling interests	**-**	(0.2)	**-**	171.0
Balance at end of period	**$ 428.0**	$ 458.3	**$ 428.0**	$ 458.3
Total equity	**$ 2,119.6**	$ 2,230.4	**$ 2,119.6**	$ 2,230.4

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

Canfor Corporation
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)	**$ 62.4**	$ (40.7)	**$ (2.8)**	$ (119.7)
Items not affecting cash:				
Amortization	**92.6**	93.2	**187.0**	174.1
Income tax expense (recovery)	**26.1**	(19.2)	**(16.6)**	(42.8)
Long-term portion of deferred reforestation obligations	**5.8**	(3.7)	**23.8**	12.5
Foreign exchange (gain) loss on term debt	**(6.0)**	(4.6)	**11.3**	(5.1)
Foreign exchange (gain) loss on duty deposits recoverable, net (Note 4)	**0.7**	1.4	**(1.9)**	3.1
Adjustment to accrued duties (Note 14)	**(9.6)**	7.9	**1.7**	11.0
Changes in mark-to-market value of derivative financial instruments (Note 8)	**3.6**	(1.4)	**2.0**	15.6
Employee future benefits expense	**2.7**	2.5	**5.2**	5.4
Restructuring, mill closure and severance costs, net (Note 7)	**14.4**	11.5	**15.4**	11.5
Finance expense, net	**13.4**	14.6	**29.1**	25.1
Other, net	**0.8**	-	**0.9**	(0.8)
Restructuring, mill closure and severance costs paid (Note 7)	**(2.0)**	-	**(4.0)**	-
Defined benefit plan contributions, net	**(3.8)**	(6.0)	**(9.1)**	(10.7)
Income taxes received (paid), net	**42.5**	8.2	**71.3**	(1.4)
	243.6	63.7	**313.3**	77.8
Net change in non-cash working capital (Note 11)	**54.0**	141.3	**(22.5)**	(22.0)
	297.6	205.0	**290.8**	55.8
Financing activities				
Change in operating loans (Note 5(a))	**(158.0)**	(45.8)	**(82.2)**	341.6
Proceeds (repayment), net from term debt	**(0.4)**	(0.2)	**0.2**	231.3
Payment of lease obligations	**(5.9)**	(4.0)	**(11.5)**	(7.3)
Finance expenses paid	**(13.7)**	(14.4)	**(27.0)**	(21.6)
Cash distributions paid to non-controlling interests	**-**	(10.5)	**(1.7)**	(15.5)
	(178.0)	(74.9)	**(122.2)**	528.5
Investing activities				
Additions to property, plant and equipment, timber, and intangible assets, net	**(31.4)**	(82.0)	**(84.5)**	(156.7)
Proceeds on sale of Vavenby forest tenure (Note 7)	**-**	-	**56.5**	-
Consideration paid for acquisition of Vida, net of cash acquired	**-**	-	**-**	(562.3)
Vida consideration holdback	**-**	-	**-**	(9.7)
Phased acquisition of Elliott, net of cash acquired (Note 13)	**(46.3)**	(52.0)	**(46.3)**	(52.0)
Elliott term loan and line of credit	**1.7**	(8.5)	**1.7**	(8.5)
Other, net	**1.4**	(7.7)	**2.6**	(7.8)
	(74.6)	(150.2)	**(70.0)**	(797.0)
Foreign exchange gain (loss) on cash and cash equivalents	**0.3**	(1.0)	**3.1**	0.7
Increase (decrease) in cash and cash equivalents*	**45.3**	(21.1)	**101.7**	(212.0)
Cash and cash equivalents at beginning of period*	**116.5**	61.8	**60.1**	252.7
Cash and cash equivalents at end of period*	**$ 161.8**	$ 40.7	**$ 161.8**	$ 40.7

*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.

Canfor Corporation
Notes to the Condensed Consolidated Financial Statements
Three and six months ended June 30, 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 Standard ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Corporation and its subsidiary entities, including Canfor Pulp Products Inc. ("CPPI"), the Vida Group of Sweden ("Vida"), and Elliott Sawmilling Co. LLC ("Elliott") from the May 31, 2020 acquisition date, hereinafter referred to as "Canfor" or "the Company".

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. Seasonality of Operations

Canfor's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions such as forest fires, hurricanes and flooding, can cause logging curtailments which can affect the supply of raw materials to sawmills and pulp mills. Market demand also varies seasonally to some degree. Building activity and repair and renovation work, which affect demand for solid wood products, are generally stronger in the spring and fall months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

3. Inventories

(millions of Canadian dollars, unaudited)		**As at June 30, 2020**		As at December 31, 2019
Logs	**$**	**144.6**	$	185.5
Finished products		**453.1**		452.6
Residual fibre		**27.8**		38.7
Materials and supplies		**130.8**		127.1
	$	**756.3**	$	803.9

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended June 30, 2020, an $80.6 million inventory write-down recovery was recognized for the lumber segment (six months ended June 30, 2020 - $17.6 million recovery). After taking account of the draw-down of a specific provision for Vavenby and Mackenzie of $10.5 million in the first quarter of 2020 (with no corresponding income statement impact), the remaining provision for logs and lumber was eliminated at June 30, 2020 (December 31, 2019 – provision of $28.1 million).

For the three months ended June 30, 2020, a $8.2 million write-down was recognized in the pulp and paper segment (six months ended June 30, 2020 - $2.5 million write-down recovery), resulting in a $8.2 million inventory provision for pulp logs, finished products and raw materials at June 30, 2020 (December 31, 2019 – provision of $10.7 million).

4. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)	**As at June 30, 2020**	As at December 31, 2019
Investment in Elliott (Note 13)	**$ -**	$ 78.1
Other investments	**13.2**	11.4
Duty deposits recoverable, net (Note 14)	**32.4**	32.4
Other deposits, loans, advances and long-term assets	**54.9**	51.8
	$ 100.5	$ 173.7

The duty deposits recoverable, net balance represents US-dollar anti-dumping and countervailing duty cash deposits paid in excess of the calculated expense accrued at June 30, 2020 (Note 14).

On May 31, 2020, Canfor completed the second phase (51%) purchase of Elliott, bringing its ownership interest to 100% (Note 13). As a result, the acquisition method of accounting was applied under IFRS 3 *Business Combinations* ("IFRS 3") on the May 31, 2020 acquisition date and the equity investment in Elliott was derecognized, with no fair value adjustment.

5. Operating Loans and Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)	**As at June 30, 2020**	As at December 31, 2019
Canfor (excluding Vida and CPPI)		
Available operating loans:		
Operating loan facility	**$ 550.0**	$ 550.0
Revolving credit facility	**200.0**	100.0
Facilities for letters of credit	**70.0**	70.0
Total operating loan facilities	**820.0**	720.0
Operating loan facility drawn	**(285.0)**	(350.0)
Letters of credit	**(64.9)**	(65.2)
Total available operating loan facilities - Canfor	**$ 470.1**	$ 304.8
Vida		
Available operating loans:		
Operating loan facilities	**$ 74.4**	$ 71.0
Overdraft facilities	**21.5**	21.5
Total operating loan facilities	**95.9**	92.5
Operating loan facilities drawn	**(0.3)**	(0.2)
Overdraft facilities drawn	**(15.3)**	(17.8)
Total available operating loan facilities - Vida	**$ 80.3**	$ 74.5
CPPI		
Available operating loans:		
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 - CPPI	**$ 97.1**	$ 82.8
Consolidated:		
Total operating loan facilities	**$ 1,025.9**	$ 922.5
Total operating loan facilities drawn	**$ 300.6**	$ 382.0
Total available operating loan facilities	**$ 647.5**	$ 462.1

Interest is payable on Canfor's committed operating loan facility (excluding Vida and CPPI) at floating rates based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio.

On June 11, 2020, Canfor (excluding Vida and CPPI) increased the principal of its committed revolving credit facility by $100.0 million to $200.0 million, with a maturity date of June 10, 2021. Terms of the revolving facility are largely consistent with those of Canfor's existing committed operating loan facility.

Canfor (excluding Vida and CPPI) has a separate facility to cover letters of credit. At June 30, 2020, $62.5 million of letters of credit outstanding are covered under this facility with the balance of $2.4 million covered under Canfor's general committed operating loan facility.

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 1.0% to 1.3%. Vida also has separate overdraft facilities with fixed interest rates ranging from 1.7% to 4.7%.

The terms of CPPI'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 lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin.

At June 30, 2020, the Company had total available undrawn operating loans of $647.5 million, including the undrawn revolving credit facility and undrawn facilities for letters of credit.

Canfor and CPPI's operating loan facilities have certain financial covenants, including maximum debt to total capitalization ratios. Vida is also subject to certain financial covenants, including minimum equity and interest coverage ratios. As at June 30, 2020, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their operating loan facilities. Substantially all borrowings of Vida and CPPI are non-recourse to other entities within the Company.

(b) Term Debt

(millions of Canadian dollars, unaudited)		**As at June 30, 2020**		As at December 31, 2019
Canfor (excluding Vida and CPPI)				
CAD$225.0 million, floating interest, repayable January 2, 2024	**$**	**225.0**	$	225.0
US$200.0 million floating interest, repayable January 2, 2027		**273.5**		259.7
US$100.0 million, fixed interest of 4.4%, repayable in three equal tranches on October 2, 2023, 2024 and 2025		**136.8**		129.9
Other (US$7.7 million)[1]		**10.3**		9.9
Vida				
SEK 129.5 million, floating interest, repayable in instalments up to December 31, 2020[2]		**18.9**		10.4
SEK 11.0 million, floating interest, repayable in instalments up to April 30, 2022		**1.6**		2.0
SEK 2.2 million, floating interest, repayable in instalments up to August 31, 2024		**0.3**		0.3
SEK 2.8 million, floating interest, repayable in instalments up to April 30, 2022		**0.4**		0.5
AUD 0.4 million, floating interest, with no fixed maturity date		**0.4**		7.0
CPPI				
CAD$50.0 million, floating interest, repayable September 30, 2022		**50.0**		50.0
Term debt at end of period	**$**	**717.2**	$	694.7
Less: Current portion		**(17.3)**		(13.0)
Long-term portion	**$**	**699.9**	$	681.7

[1] Amount relates to net financing for specific capital projects at Canfor's U.S. sawmills.
[2] Renewed annually.

Canfor's and CPPI's term debt (excluding Vida) is unsecured. Vida's term debt is secured by its property, plant and equipment.

On February 10, 2020, Vida increased its primary SEK denominated floating interest rate term debt facility from SEK 74.5 million to SEK 129.5 million, which is repayable in instalments up to December 31, 2020.

Canfor's borrowings (excluding Vida) feature similar financial covenants, including a maximum debt to total capitalization ratio. Vida's borrowings are subject to certain financial covenants, including minimum equity and interest coverage ratios. As at June 30, 2020, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their term debt.

Fair value of total term debt

At June 30, 2020, the fair value of the Company's term debt is $722.9 million (December 31, 2019 - $700.6 million) determined based on prevailing market rates for the term debt with similar characteristics and risk profile.

6. Employee Future Benefits

For the three months ended June 30, 2020, defined benefit pension plan actuarial losses of $21.0 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 $9.0 million (before tax) were recognized in other comprehensive income (loss) reflecting a return on plan assets lower than the discount rate. For the three and six months ended June 30, 2019, the Company recognized actuarial gains in other comprehensive income (loss) of $12.4 million and $5.1 million (before tax), respectively.

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

	Defined Benefit Pension Plans	Other Benefit Plans
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%

7. Restructuring Costs and Assets Held for Sale

On March 9, 2020, the Company completed the sale of the Vavenby forest tenure to Interfor Corporation for net proceeds of $56.5 million, including working capital and other adjustments. The pending sale of the remaining Vavenby sawmill assets and liabilities to a third-party for $6.0 million is currently expected to close in the second half of 2020.

On May 20, 2020, the Company announced its plans to permanently close its Isle Pierre sawmill located in British Columbia during the third quarter of 2020. As a result, restructuring costs of $9.0 million, largely comprised of severance costs, have been recognized in 'Restructuring, Mill Closure and Severance Costs, Net' on the consolidated statement of income (loss) for the three and six months ended June 30, 2020. Following the announced closure, the Isle Pierre sawmill assets were assessed for impairment, resulting in a $5.4 million impairment loss (before tax) also recognized as a component of 'Restructuring, Mill Closure and Severance Costs, Net' on the consolidated statement of income (loss) for the three and six months ended June 30, 2020. Of the Isle Pierre restructuring costs, $8.7 million is included in 'Accounts Payable and Accrued Liabilities', with $0.3 million recognized in 'Other Long-Term Liabilities' on the consolidated balance sheet as at June 30, 2020.

8. Financial Instruments

Canfor's cash and cash equivalents, trade and other accounts receivable, certain long-term investments and advances, accounts payable and accrued liabilities, other liabilities, operating loans, and term debt are classified as measured at amortized cost in accordance with IFRS 9 *Financial Instruments*. The carrying amounts of these instruments, excluding term debt, approximate fair value at June 30, 2020 and December 31, 2019.

Derivative instruments and investments in debt and equity securities (excluding associates accounted for under the equity method) are classified as measured at fair value through profit or loss. The put liability is measured initially at fair value, with subsequent gains and losses recognized in 'Other Equity'. IFRS 13 *Fair Value Measurement*, requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, directly or indirectly;

Level 3 – Inputs that are not based on observable market data.

The following table summarizes Canfor's financial instruments measured at fair value and shows the level within the fair value hierarchy in which the financial instruments have been classified:

(millions of Canadian dollars, unaudited)	Fair Value Hierarchy Level		**As at June 30, 2020**		As at December 31, 2019
Financial assets measured at fair value					
Investments	Level 1	**$**	**12.5**	$	10.7
Derivative financial instruments	Level 2		**0.5**		0.3
		$	**13.0**	$	11.0
Financial liabilities measured at fair value					
Derivative financial instruments	Level 2	**$**	**2.2**	$	-
Put liability	Level 3		**123.9**		111.9
		$	**126.1**	$	111.9

The following table summarizes the gains (losses) on derivative financial instruments recognized in the consolidated statement of income (loss):

(millions of Canadian dollars, unaudited)		3 months ended June 30, **2020**		2019		6 months ended June 30, **2020**		2019
Interest rate swaps	**$**	**(0.4)**	$	-	**$**	**(0.4)**	$	-
Lumber futures		**(1.8)**		0.3		**(1.0)**		5.4
Foreign exchange forward contracts		**(2.3)**		2.3		**0.9**		(31.2)
Gain (loss) on derivative financial instruments	**$**	**(4.5)**	$	2.6	**$**	**(0.5)**	$	(25.8)

On April 14, 2020, the Company entered into fixed interest rate swaps at 0.30%, with a notional value of US$100.0 million, maturing on April 25, 2022.

During the three and six months ended June 30, 2020, losses of $4.1 million and $6.4 million, respectively, were recognized in 'Other Equity' on the Company's consolidated balance sheet following remeasurement of the put liability associated with the acquisition of Vida.

9. Income Taxes

The components of the Company's income tax recovery (expense) are as follows:

(millions of Canadian dollars, unaudited)		3 months ended June 30, **2020**		2019		6 months ended June 30, **2020**		2019
Current	**$**	**(26.2)**	$	20.4	**$**	**25.5**	$	37.1
Deferred		**0.1**		(1.2)		**(8.9)**		5.7
Income tax recovery (expense)	**$**	**(26.1)**	$	19.2	**$**	**16.6**	$	42.8

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 June 30, **2020**		2019		6 months ended June 30, **2020**		2019
Income tax recovery (expense) at statutory rate – 27% (2019 – 27%)	**$**	**(23.9)**	$	16.2	**$**	**5.2**	$	43.9
Add (deduct):								
Non-taxable income related to non-controlling interests		**(0.2)**		0.2		**(0.3)**		0.2
Entities with different income tax rates and other tax adjustments		**(3.0)**		2.5		**13.1**		3.3
Permanent difference from capital gains and losses and other non-deductible items		**1.0**		0.3		**(1.4)**		(4.6)
Income tax recovery (expense)	**$**	**(26.1)**	$	19.2	**$**	**16.6**	$	42.8

In addition to the amounts recorded to net income (loss), a tax recovery of $5.6 million was recorded in other comprehensive income (loss) for the three months ended June 30, 2020 in relation to actuarial losses on the defined benefit plans (three months ended June 30, 2019 – expense of $3.4 million in relation to actuarial gains). For the six months ended June 30, 2020, the tax recovery was $2.4 million (six months ended June 30, 2019 – expense of $1.4 million).

Also included in other comprehensive income (loss) for the three months ended June 30, 2020 was a tax recovery of $9.4 million related to foreign exchange differences on translation of investments in foreign operations (three months ended June 30, 2019 – $0.8 million). For the six months ended June 30, 2020 the tax recovery was $6.3 million (six months ended June 30, 2019 – $1.6 million).

10. Earnings (Loss) Per Share

Basic net income (loss) per share is calculated by dividing the net income (loss) attributable to common equity 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	**125,219,400**	125,219,400	**125,219,400**	125,219,400

As at June 30, 2020 and July 23, 2020 there were 125,219,400 common shares of the Company outstanding, and Canfor's ownership interest in CPPI and Vida was 54.8% and 70.0%, respectively.

11. Net Change in Non-Cash Working Capital

		3 months ended June 30,			6 months ended June 30,		
(millions of Canadian dollars, unaudited)		**2020**		2019		**2020**	2019
Accounts receivable	**$**	**(8.3)**	$	30.8	**$**	**(42.0)**	$ (34.7)
Inventories		**132.7**		144.9		**69.9**	47.8
Prepaid expenses and other		**(10.8)**		(1.4)		**(25.1)**	(21.3)
Accounts payable and accrued liabilities, current portion of deferred reforestation obligations and other current liabilities		**(59.6)**		(33.0)		**(25.3)**	(13.8)
Net change in non-cash working capital	**$**	**54.0**	$	141.3	**$**	**(22.5)**	$ (22.0)

12. Segment Information

Canfor has two reportable segments (lumber segment and pulp and paper segment), which offer different products and are managed separately because they require different production processes and marketing strategies.

Sales between segments are accounted for at prices that approximate fair value. These include sales of residual fibre from the lumber segment to the pulp and paper segment for use in the pulp production process.

The Company's panels business does not meet the criteria to be reported fully as a separate segment and is included in 'Unallocated & Other' below.

The business activities of Elliott, acquired on May 31, 2020 following the close of the second phase purchase (Note 13), include the manufacturing and sale of various grades, widths and lengths of lumber. Therefore, Elliott's results are reported in Canfor's lumber segment.

(millions of Canadian dollars, unaudited)		Lumber		Pulp & Paper		Unallocated & Other		Elimination Adjustment		Consolidated
3 months ended June 30, 2020										
Sales from contracts with customers	**$**	**864.6**	**$**	**250.7**	**$**	**-**	**$**	**-**	**$**	**1,115.3**
Sales to other segments		**46.7**		**-**		**-**		**(46.7)**		**-**
Operating income (loss)		**107.4**		**(6.3)**		**(4.2)**		**-**		**96.9**
Amortization		**72.7**		**19.6**		**0.3**		**-**		**92.6**
Capital expenditures[3]		**18.6**		**12.2**		**0.6**		**-**		**31.4**
3 months ended June 30, 2019										
Sales from contracts with customers	$	993.5	$	319.5	$	-	$	-	$	1,313.0
Sales to other segments		61.5		-		-		(61.5)		-
Operating income (loss)		(60.9)		18.4		(7.6)		-		(50.1)
Amortization		69.7		23.3		0.2		-		93.2
Capital expenditures[3]		57.0		24.4		0.6		-		82.0

(millions of Canadian dollars, unaudited)		Lumber		Pulp & Paper		Unallocated & Other		Elimination Adjustment		Consolidated
6 months ended June 30, 2020										
Sales from contracts with customers	**$**	**1,759.8**	**$**	**526.2**	**$**	**-**	**$**	**-**	**$**	**2,286.0**
Sales to other segments		**96.7**		**0.1**		**-**		**(96.8)**		**-**
Operating income (loss)		**18.3**		**(0.2)**		**(10.0)**		**-**		**8.1**
Amortization		**145.2**		**41.2**		**0.6**		**-**		**187.0**
Capital expenditures[3]		**52.6**		**31.0**		**0.9**		**-**		**84.5**
Identifiable assets		**3,426.3**		**842.2**		**313.6**		**-**		**4,582.1**
6 months ended June 30, 2019										
Sales from contracts with customers	$	1,838.2	$	623.5	$	-	$	-	$	2,461.7
Sales to other segments		124.9		-		-		(124.9)		-
Operating income (loss)		(133.4)		36.5		(17.5)		-		(114.4)
Amortization		128.1		45.6		0.4		-		174.1
Capital expenditures[3]		105.3		49.9		1.5		-		156.7
Identifiable assets		3,595.8		927.4		219.4		-		4,742.6

[3]Capital expenditures represent cash paid for capital assets during the periods, excluding assets purchased as part of the acquisitions of Vida and Elliott (Note 13). Pulp & Paper includes capital expenditures by CPPI that were partially financed by government grants.

Geographic information

Canfor operates manufacturing facilities in Canada, the US and Europe. Canfor's products are marketed worldwide, with sales made to customers in a number of different countries. In presenting information on the basis of geographical location, sales are based on the geographical location of customers.

	3 months ended June 30,						6 months ended June 30,					
(millions of Canadian dollars, unaudited)			**2020**			2019			**2020**			2019
Sales by location of customer												
Canada	**8%**	**$**	**91.3**	9%	$	122.9	**10%**	**$**	**221.2**	10%	$	252.3
Asia	**21%**		**237.8**	25%		324.0	**21%**		**484.0**	26%		640.3
United States	**51%**		**572.1**	46%		609.9	**50%**		**1,140.2**	48%		1,187.7
Europe	**16%**		**172.4**	17%		218.7	**16%**		**363.7**	13%		310.9
Other	**4%**		**41.7**	3%		37.5	**3%**		**76.9**	3%		70.5
	100%	**$**	**1,115.3**	100%	$	1,313.0	**100%**	**$**	**2,286.0**	100%	$	2,461.7

13. Acquisition of Elliott Sawmilling Co., LLC

On May 31, 2019, the Company completed the first of a two-phase purchase of Elliott with an aggregate purchase price of US$110.5 million (paid in three instalments), plus a net working capital adjustment of $4.1 million (US$3.1 million). Elliott is located in Estill, South Carolina, and adds 210 million board feet of high-value SYP lumber production capacity. In accordance with IAS 28 *Investments in Associates and Joint Ventures*, the first phase (49%) purchase of $52.0 million (US$38.5 million, the first instalment) was recognized as an equity investment, accounted for under the equity method.

On May 31, 2020, Canfor completed the second phase (51%) purchase for $50.4 million (US$37.0 million, the second instalment), bringing its ownership interest in Elliott to 100%. As a result, the equity investment was derecognized, and Elliott's results were consolidated into Canfor's on the May 31, 2020 acquisition date in accordance with IFRS 3.

The term loan facility advanced to Elliott as part of the first phase purchase of $6.4 million (US$4.7 million) was derecognized on the May 31, 2020 acquisition date and deducted from the final instalment payment of $47.7 million (US$35.0 million, the third instalment), due on May 31, 2021. As a result, the net payable of $41.4 million (US$30.3 million) has been recognized as an 'Other Current Liability' on Canfor's consolidated balance sheet as at June 30, 2020.

The following summarizes the consideration paid for Elliott and preliminary recognized amounts of assets acquired and liabilities assumed at the acquisition date:

(millions of Canadian dollars, unaudited)		
Cash consideration (first and second instalments and working capital adjustment)[4]	$	107.1
Consideration payable (third instalment, net of term loan facility)		41.3
Total preliminary consideration	$	148.4

[4] Reflects foreign exchange movements of $0.6 million related to timing of payments.

(millions of Canadian dollars, unaudited)		
Cash	$	4.1
Land and buildings		9.0
Property, plant and equipment		24.9
Non-cash working capital, net		6.8
Total preliminary net identifiable assets	$	44.8
Preliminary goodwill		103.0
Deferred tax asset, net		0.6
Total preliminary consideration	$	148.4

The Company incurred acquisition-related costs of $0.8 million which have been expensed as incurred and included in 'Selling and Administration Costs' on the consolidated statement of income (loss).

Preliminary goodwill of $103.0 million recognized as part of the purchase is calculated as the excess of the aggregate preliminary consideration over the fair value of the preliminary identifiable assets acquired and liabilities assumed. The goodwill arising from the acquisition is attributable to management strength, expected future income and cash-flow projections and the ability to diversify Canfor's product offering. Goodwill calculated for tax purposes is expected to be deductible over 15 years. As part of the consolidation of Elliott, a net deferred tax asset of $0.6 million was recognized for differences between tax and accounting values of property, plant and equipment and goodwill.

14. Countervailing and Anti-Dumping Duties

In 2016, a petition was filed by the US Lumber Coalition to the US Department of Commerce ("DOC") and the US International Trade Commission ("ITC") alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers. Canfor was selected by the DOC as a "mandatory respondent" to the countervailing and anti-dumping investigations and is subject to company specific countervailing and anti-dumping duties. As a result of the DOC's investigation, countervailing duties ("CVD") and anti-dumping duties ("ADD") were imposed on the Company's Canadian lumber exports to the United States beginning in 2017, with cash deposits posted at an ADD rate of 7.28% and CVD rate of 13.24%, resulting in a combined cash deposit rate at June 30, 2020 of 20.52%.

Canfor and other Canadian forest product companies, the Federal Government and Canadian Provincial Governments continue to categorically deny the US allegations and strongly disagree with the current countervailing and anti-dumping determinations made by the DOC. Canada has proceeded with legal challenges under NAFTA and through the World Trade Organization, where Canadian litigation has proven successful in the past.

First Period of Review ("POR1")

Despite cash deposits being made at rates determined by the DOC in 2017 (20.52%), the final liability associated with duties is not determined until the completion of administrative reviews performed by the DOC. For the CVD rate, the first period of review was based on sales and cost data through 2017 and 2018, while the ADD rate was based off data from July 2017 to December 2018. For the first period of review, the Company accrued the ADD expense at an estimated rate of 2.6% and recorded the CVD expense at the DOC's cash deposit rate of 13.24% (combined rate of 15.84%).

In early 2020, the DOC announced the preliminary results for the first period of review. The Company's preliminary CVD cash deposit rate was determined to be 2.93% for 2017 and 2.61% for 2018 (versus a cash deposit rate of 13.24%), while the preliminary ADD cash deposit rate was 2.02% for the entire first period of review (versus a cash deposit rate of 7.28% and estimated accrual rate of 2.6%). For the Company, the difference between the combined cash deposit rate of 20.52% and the combined preliminary DOC rates for POR1 is currently estimated at $223.3 million (US$163.3 million).

Upon finalization of these rates (currently anticipated near the end of the third quarter of 2020), the Company's current combined cash deposit rate of 20.52% will be reset to the final rates as determined in the first period of review (4.63% based on the preliminary determination). This new cash deposit rate will apply on the Company's Canadian lumber shipments destined to the United States until completion of the administrative review for the second period of review (anticipated in 2021).

In addition, upon finalization of these rates, an additional recovery will be recognized in the Company's consolidated financial statements to reflect the difference between the accrual rate of 15.84% and final rates as established for the first period of review. This additional recovery is currently estimated at $148.6 million (US$105.7 million).

Despite the reduced preliminary rates for the first period of review, no cash duties will be refunded to the Company until such time as the litigation regarding the imposition of CVD and ADD has been settled.

Second and Third Periods of Review ("POR 2" and "POR 3")

The second period of review is based on sales and cost data in 2019. While the Company was unable to estimate an applicable CVD rate separate from the cash deposit rate for 2019, ADD was expensed at an estimated rate of 16.0%, resulting in a combined rate of 29.24% (versus the cash deposit rate of 20.52%). In the second quarter of 2020, Canfor was selected as a "mandatory respondent" to the CVD and ADD investigations for the second period of review and will therefore be subject to company specific duties for this period.

On January 1, 2020, the Company moved into the third period of review, which is based on sales and cost data in 2020. The Company continues to expense CVD at the cash deposit rate of 13.24%, with ADD expensed at an estimated rate of 8.0% for POR3 (current combined CVD and ADD rate of 21.24%). The estimated ADD accrual rate for POR3 decreased from an estimated rate of 16.0% at March 31, 2020, largely driven by improved lumber pricing in the second quarter of 2020, resulting in an ADD recovery of $10.3 million recognized in the three months ended June 30, 2020.

Summary

As at June 30, 2020, Canfor has paid cumulative cash deposits of $483.3 million. For accounting purposes, a net duty recoverable of $32.4 million is included on the Company's consolidated balance sheet (Note 4) reflecting differences between the cash deposit rate (20.52%) and the Company's combined accrual rates for each period of review (POR1: 15.84%, POR2: 29.24%, and POR3: 21.24%).

For the six months ended June 30, 2020, the Company recorded a net duty expense of $63.6 million (three months ended June 30, 2020 - $19.2 million), comprised of cash deposits paid of $61.9 million (three months ended June 30, 2020 - $28.8 million), and an additional expense of $1.7 million (three months ended June 30, 2020 – recovery of $9.6 million), net of the aforementioned $10.3 million recovery in POR3.

Canfor will continue to reassess the ADD accrual estimate at each quarter-end, applying the DOC's methodology to updated sales and cost data as this becomes available. Quarterly revisions to the ADD rate may result in a material adjustment to the consolidated statement of income (loss) while the Administrative Reviews are taking place. Changes to the DOC's existing CVD and ADD rates during the course of each Administrative Review may also result in material adjustments to the consolidated statement of income (loss).

15. 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 and in response, Canfor announced a series of significant measures. For the lumber segment, these measures included extensive temporary capacity reductions across all three of the Company's sawmill operating regions during the second quarter and the announcement of the permanent closure of the Isle Pierre sawmill, which will take effect in the third quarter. In the pulp and paper segment, CPPI'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 effects 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 ("CEWS")

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, the Company submitted claims of $23.9 million under the CEWS program, of which $18.6 million is recognized as a receivable, 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 ($21.0 million against 'Manufacturing and Product Costs' and $2.9 million against 'Selling and Administration 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.