2020

QUARTER ONE

INTERIM REPORT

FOR THE THREE MONTHS ENDED MAR 31. 2020

CANFOR CORPORATION

To Our Shareholders

Canfor Corporation reported its first quarter 2020 results:

Overview

- First quarter of 2020 reported operating loss of $89 million, including a $63 million inventory write-down in the lumber segment; adjusted operating income of $9 million
- Adjusted shareholder net loss of $26 million, or $0.21 per share

Financial Results

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

(millions of Canadian dollars, except per share amounts)	Q1 2020	Q4 2019	Q1 2019
Sales	**$ 1,170.7**	$ 1,105.2	$ 1,148.7
Reported operating income before amortization	**$ 5.6**	$ 35.6	$ 16.6
Reported operating income (loss)	**$ (88.8)**	$ (59.6)	$ (64.3)
Adjusted operating income before amortization[1]	**$ 103.3**	$ 62.7	$ 91.8
Adjusted operating income (loss)[1]	**$ 8.9**	$ (32.5)	$ 10.9
Net income (loss)[2]	**$ (70.0)**	$ (39.1)	$ (86.6)
Net income (loss) per share, basic and diluted[2]	**$ (0.56)**	$ (0.31)	$ (0.69)
Adjusted net income (loss)[2]	**$ (26.2)**	$ (8.2)	$ (33.9)
Adjusted net income (loss) per share, basic and diluted[2]	**$ (0.21)**	$ (0.06)	$ (0.27)

[1] Adjusted for countervailing and anti-dumping duties expense ($44.4 million in Q1 2020, $43.7 million in Q4 2019, $36.3 million in Q1 2019), inventory write-downs and recoveries ($52.3 net write-down in Q1 2020, $19.9 million net recovery in Q4 2019, $38.9 net write-down in Q1 2019), and restructuring costs related to mill closures and curtailments ($1.0 million in Q1 2020, $3.3 million in Q4 2019).
[2] Attributable to equity shareholders of the Company.

For the first quarter of 2020, the Company reported an operating loss of $88.8 million, $29.2 million higher than the operating loss of $59.6 million reported for the fourth quarter of 2019. The significant decline reflected materially lower operating earnings in the lumber segment, partially offset by improved operating earnings in the pulp and paper segment.

Reported results in the first quarter of 2020 included a $63.0 million inventory write-down for the lumber operating segment, partly offset by a $10.7 million recovery in the inventory write-down provision for the pulp and paper operating segment. In addition, current quarter results included a net duty expense of $44.4 million, at a current cumulative effective countervailing duty ("CVD") and anti-dumping duty ("ADD") rate of 29.24% (versus a combined cash deposit rate of 20.52%), compared to $43.7 million reported in the fourth quarter of 2019 at the same combined rate. Cumulative cash deposits as at March 31, 2020 total $454.5 million.

Before taking account of inventory write-downs at the end of March, adjusted lumber segment operating income reflected a modest improvement in the quarter-over-quarter results from the Company's Western Spruce/Pine/Fir ("SPF") operations, largely due to a moderate increase in US-dollar Western SPF lumber prices, a modest decline in log costs in British Columbia ("BC"), and a 1 cent, or 2%, weaker Canadian dollar, which more than offset a quarter-over-quarter decline in Western SPF shipments. The Company's Southern Yellow Pine ("SYP") operational results experienced a slight increase quarter-over-quarter, as relatively flat SYP unit sales realizations were offset by a moderate increase in shipments. The Company's European SPF operations continued to contribute strongly to the Company's financial results; compared to the previous quarter, operating earnings showed a modest decrease, as significantly higher European SPF shipments were more than offset by a 5% decline in European SPF benchmark pricing and seasonally higher unit manufacturing costs in the current quarter.

Results in the pulp and paper segment principally reflected a solid operating performance at Canfor Pulp Products Inc.'s ("CPPI") pulp and paper mills, as higher production and a corresponding decline in pulp unit manufacturing costs combined with the weaker Canadian dollar, mitigated the impacts of the coronavirus outbreak ("COVID-19") in the latter half of the quarter.

The moderate up-tick in lumber market fundamentals and favourable macroeconomic conditions experienced at the end of 2019, particularly in North American home construction activity and the repair and remodeling sector, continued through the first part of the current quarter. Global lumber market conditions weakened, however, in late February and March as the effects of COVID-19 spread globally. US housing starts, on a seasonally adjusted basis, averaged 1,592,000 units for January and February, up 10% from the previous quarter; March housing starts experienced a steep decline to 1,216,000 units, a decrease of 22% in one month, the largest monthly decline in over thirty years, with continued downward pressure anticipated in April. In Canada, housing starts averaged 207,000 units on a seasonally adjusted basis in the first quarter of 2020, up 3% from the previous quarter, as slowing activity in major Eastern Canadian cities was offset by an up-tick in the Western Canadian market. Offshore lumber demand was down, particularly in China and other Asian countries, as that region experienced widespread COVID-19 quarantine restrictions and reduced activity during the first quarter of 2020. European lumber demand was solid through most of the current quarter, but modest pricing pressure experienced late in 2019 from an increase in European supply due to the spruce beetle, continued into the first quarter of 2020.

The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US$19 per Mfbm, or 5%, from the previous quarter, at US$399 per Mfbm, as positive pricing momentum early in the current quarter, particularly from North American markets, more than outweighed the impact of COVID-19. The Western SPF 2x4 #2&Btr price increased significantly in January and February, reaching a high of US$442 per Mfbm, before declining dramatically to US$303 per Mfbm at the end of March, and to a low of US$282 per Mfbm early April, in the wake of the pandemic. Over the same comparative period, Western SPF lumber unit sales realizations showed a moderate increase in first quarter of 2020, reflecting higher benchmark lumber prices for most dimensions combined with the weaker Canadian dollar.

The steep decline in lumber prices through March and into April, combined with the ongoing pressure anticipated on US housing starts, resulted in a lumber inventory write-down related to the Company's Western SPF operations of $63.0 million recorded at the end of the first quarter of 2020.

The Company's SYP lumber unit sales realizations were broadly in line with the prior quarter, as moderate price increases for most wider-width SYP dimensions were offset by a decrease in the SYP East 2x4 #2 price, which fell 5% to US$386 per Mfbm.

The average European indicative SPF lumber benchmark price (an internally generated benchmark based on delivered price to the largest continental market), at 3,352 Swedish Krona ("SEK") per Mfbm, was down SEK 188 per Mfbm, or 5% (equivalent to US$346 per Mfbm, down US$22 per Mfbm, or 6%), from the previous quarter. Similar declines were seen for the Company's European SPF unit sales realizations quarter-over-quarter.

Total lumber shipments, at 1.25 billion board feet, were slightly above the previous quarter, with significantly higher European SPF shipments and a moderate increase in SYP shipments in the current quarter more than offsetting decreased shipments of Western SPF lumber. The latter reflected weather-related transportation constraints and rail line blockades early in the period, combined with vessel disruptions, particularly to Asia, in the second half of the current quarter as a result of the COVID-19 outbreak.

Total lumber production, at 1.29 billion board feet, was up 3% from the prior quarter, primarily reflecting an increase in operating days in all regions due to fewer statutory holidays, combined with higher production in the US South following capital-related downtime at two of the Company's sawmills in the previous quarter, as well as increased Western SPF production in the current quarter after the market-related downtime taken in the comparative period. The Company's European SPF operations continued to perform well in the current quarter.

Lumber unit manufacturing and product costs were broadly in line with the prior quarter, as the benefit of increased Western SPF, SYP and, to a lesser extent, European SPF production, combined with lower market pricing on consumed log costs in Western Canada, more than offset higher seasonal lumber unit manufacturing costs in Europe.

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

("BCTMP") unit sales realizations showed a moderate increase from the previous quarter reflecting a gradual improvement in BCTMP US-dollar prices through the quarter combined with the weaker Canadian dollar.

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

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

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

In response to the significant global impacts of the COVID-19 pandemic, in late March and early April, Canfor announced a series of significant measures. These included extensive capacity reductions across all three of the Company's sawmill operating regions, most notably, impacting the majority of the Company's BC sawmills, as well as a three-week curtailment of CPPI's Northwood pulp mill in place of the previously scheduled spring maintenance turnaround (postponed until later in 2020). These curtailments are currently anticipated to result in a reduction of approximately 170 million board feet of Western SPF production, 50 million board feet of SYP production, 17 million board feet of European SPF production and 35,000 tonnes of NBSK pulp production in the second quarter of 2020. The Company also announced the immediate reduction of its planned capital expenditures for 2020, which were already modest, by $20.0 million for its lumber segment (principally Canadian and US operations) and by $15.0 million for its pulp and paper segment (in addition to the previously announced $40.0 million cost containment measures for Canfor Pulp), representing a decrease of approximately $100.0 million from 2019 capital expenditures. These reductions will be realized through the deferral of planned projects and suspension of in-progress initiatives that can be paused without significant impact.

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

Looking forward, the impacts of COVID-19 on global macroeconomics are still unfolding and the Company anticipates lumber market conditions will remain extremely volatile through much of 2020. Global lumber market demand in recent weeks has declined sharply in the wake of closures of non-essential businesses and lockdowns implemented in many parts of North America and Europe. The Company currently anticipates that US home construction activity will remain at depressed levels with demand volatility varying on a regional basis. In North America, following a sharp fall-off in pricing from mid-March through early April, prices have stabilized somewhat in response to a material reduction in supply in recent weeks.

Lumber prices to China are seeing more moderate declines than North America, as that region is gradually returning to more normal business conditions following the early outbreak of the COVID-19 pandemic, while short-term prices to Japan are anticipated to be in line with the current quarter. European lumber markets and pricing are also being materially impacted by the aforementioned global economic downturn, and the Company currently anticipates market conditions will remain very challenging through the second quarter of 2020.

In the pulp and paper segment, global softwood pulp demand is currently projected to be solid through the second quarter of 2020, particularly from China as that region continues to recover from the pandemic, while containment measures across Western Europe and North America are forecast to weigh on market demand for printing and writing paper. While pulp and paper operations are designated as essential services in many regions, it is projected that supply disruptions will continue in various regions as a result of the pronounced effects of COVID-19 on various business sectors, including lumber manufacturers. The current weakness in lumber markets may result in extended sawmill curtailments in the BC Interior, with the risk that lower volumes of sawmill residual chips available to pulp mills may cause additional downtime at CPPI's operations. Bleached kraft paper markets are currently anticipated to be solid through the second quarter of 2020, particularly in North America, as the impact of COVID-19 is projected to lead to increased demand for bleached kraft paper products that meet food grade specifications.

With the impacts of COVID-19 anticipated to weigh heavily on the Company's 2020 financial performance, the Company has implemented corporate-wide initiatives focused on reducing working capital, which includes accelerating receipt of income tax refund receivables, leveraging payment deferral programs, and suspending all non-essential overhead spend. These initiatives, combined with a continued disciplined approach to cash management, materially reduced capital spending and no debt repayments until 2023 at the earliest, will allow the Company to preserve its solid balance sheet position.

Conrad A. Pinette
Chairman

Don B. Kayne
President and Chief Executive Officer

Canfor Corporation
First 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 March 31, 2020 relative to the quarters ended December 31, 2019 and March 31, 2019, and the financial position of the Company at March 31, 2020. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended March 31, 2020 and 2019, as well as the 2019 annual MD&A and the 2019 audited consolidated financial statements and notes thereto, which are included in 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 first quarter of 2020.

Factors that could impact future operations are also discussed. These factors may be influenced by both known and unknown risks and uncertainties that could cause the actual results to be materially different from those stated in this discussion. Factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions; product selling prices; raw material and operating costs; currency exchange rates; interest rates; changes in law and public policy; the outcome of labour and trade disputes; and opportunities available to or pursued by 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 April 22, 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.

FIRST QUARTER 2020 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except ratios)	**Q1 2020**	Q4 2019	Q1 2019
Operating income (loss) by segment:			
Lumber[1]	**$ (89.1)**	$ (27.5)	$ (72.5)
Pulp and Paper	**$ 6.1**	$ (23.5)	$ 18.1
Unallocated and Other	**$ (5.8)**	$ (8.6)	$ (9.9)
Total operating loss	**$ (88.8)**	$ (59.6)	$ (64.3)
Add: Amortization[2]	**$ 94.4**	$ 95.2	$ 80.9
Total operating income before amortization	**$ 5.6**	$ 35.6	$ 16.6
Add (deduct):			
Working capital movements	**$ (76.5)**	$ 73.3	$ (163.3)
Restructuring, mill closure, and severance costs paid	**$ (2.0)**	$ (3.5)	$ -
Defined benefit plan contributions, net	**$ (5.3)**	$ (5.5)	$ (4.7)
Income taxes received (paid), net	**$ 28.8**	$ (4.0)	$ (9.6)
Adjustment to accrued duties[3]	**$ 11.3**	$ 10.4	$ 3.1
Other operating cash flows, net[4]	**$ 31.3**	$ 20.6	$ 8.7
Cash from operating activities	**$ (6.8)**	$ 126.9	$ (149.2)
Add (deduct):			
Capital additions	**$ (53.1)**	$ (69.7)	$ (74.7)
Finance expenses paid	**$ (13.3)**	$ (15.4)	$ (7.2)
Distributions paid to non-controlling interests	**$ (1.7)**	$ (10.2)	$ (5.0)
Repayment of long-term debt	**$ (0.1)**	$ (0.6)	$ (0.2)
Payment of lease obligations	**$ (5.6)**	$ (6.0)	$ (3.3)
Proceeds received from sale of Vavenby forest tenure	**$ 56.5**	$ -	$ -
Consideration paid for acquisition of Vida, net of cash acquired	**$ -**	$ -	$ (562.3)
Vida consideration holdback	**$ -**	$ -	$ (9.7)
Vida operating loan facilities, net of foreign exchange	**$ (0.2)**	$ (0.5)	$ (17.8)
Change in Elliott investment[5]	**$ -**	$ (4.1)	$ -
Proceeds from long-term debt, net	**$ 0.7**	$ -	$ 231.7
Foreign exchange gain on cash and cash equivalents	**$ 2.8**	$ 0.6	$ 1.7
Other, net[4]	**$ 1.2**	$ 1.4	$ (0.1)
Change in cash / operating loans	**$ (19.6)**	$ 22.4	$ (596.1)
ROIC – Consolidated period-to-date[6]	**(2.7)%**	(1.3)%	(2.7)%
Average exchange rate (US$ per C$1.00)[7]	**$ 0.744**	$ 0.758	$ 0.752
Average exchange rate (SEK per C$1.00)[7]	**7.203**	7.281	6.905

[1] Q1 2019 includes one month of our European SPF lumber operations results following the February 28, 2019 acquisition of Vida.
[2] Amortization includes amortization of certain capitalized major maintenance costs.
[3] Adjusted to true-up anti-dumping duties expensed for accounting purposes to current accrual rates.
[4] Further information on cash flows may be found in the Company's unaudited interim consolidated financial statements.
[5] Change reflects a final working capital adjustment following the first phase acquisition of Elliott Sawmilling Co., LLC ("Elliott") in May of 2019.
[6] 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 long-term debt, retirement benefit obligations, long-term deferred reforestation obligations, and deferred taxes.
[7] Source – Bank of Canada (monthly average rate for the period).

Analysis of Specific Material Items Affecting Comparability of Shareholder Net Loss

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)		Q1 2020		Q4 2019		Q1 2019
Shareholder net loss, as reported	**$**	**(70.0)**	$	(39.1)	$	(86.6)
Foreign exchange (gain) loss on long-term debt and duty deposits recoverable	**$**	**13.1**	$	(3.6)	$	0.8
Countervailing and anti-dumping duties expense, net	**$**	**32.4**	$	31.9	$	26.5
(Gain) loss on derivative financial instruments	**$**	**(2.4)**	$	0.2	$	25.4
Restructuring, mill closure and severance costs, net	**$**	**0.7**	$	2.4	$	-
Net impact of above items	**$**	**43.8**	$	30.9	$	52.7
Adjusted shareholder net loss	**$**	**(26.2)**	$	(8.2)	$	(33.9)
Shareholder net loss per share (EPS), as reported	**$**	**(0.56)**	$	(0.31)	$	(0.69)
Net impact of above items per share	**$**	**0.35**	$	0.25	$	0.42
Adjusted shareholder net loss per share	**$**	**(0.21)**	$	(0.06)	$	(0.27)

For the first quarter of 2020, the Company reported an operating loss of $88.8 million, $29.2 million higher than the operating loss of $59.6 million reported for the fourth quarter of 2019. The significant decline reflected materially lower operating earnings in the lumber segment, partially offset by improved operating earnings in the pulp and paper segment.

Before taking account of inventory write-downs at the end of March, adjusted lumber segment operating income reflected a modest improvement in the quarter-over-quarter results from the Company's Western Spruce/Pine/Fir ("SPF") operations, largely due to a moderate increase in US-dollar Western SPF lumber prices, a modest decline in log costs in British Columbia ("BC"), and a 1 cent, or 2%, weaker Canadian dollar, which more than offset a quarter-over-quarter decline in Western SPF shipments. The Company's Southern Yellow Pine ("SYP") operational results experienced a slight increase quarter-over-quarter, as relatively flat SYP unit sales realizations were offset by a moderate increase in shipments. The Company's European SPF operations continued to contribute strongly to the Company's financial results; compared to the previous quarter, operating earnings showed a modest decrease, as significantly higher European SPF shipments were more than offset by a 5% decline in European SPF benchmark pricing and seasonally higher unit manufacturing costs in the current quarter.

Results in the pulp and paper segment principally reflected a solid operating performance at Canfor Pulp Products Inc.'s ("CPPI") pulp and paper mills, as higher production and a corresponding decline in pulp unit manufacturing costs combined with the weaker Canadian dollar, mitigated the impacts of the coronavirus outbreak ("COVID-19") in the latter half of the quarter.

The current quarter's reported operating loss was $24.5 million higher than the operating loss of $64.3 million reported for the first quarter of 2019, reflecting a $16.6 million decrease in lumber segment earnings and a $12.0 million decrease in earnings for the pulp and paper segment. Lower lumber segment earnings primarily reflected the net impact of aforementioned inventory write-downs, combined with moderate declines in SYP benchmark lumber prices and significantly lower Western SPF shipment and production volumes, more than offsetting the incremental benefit of a full quarter of the Company's European SPF operations, higher Western SPF unit sales realizations, a decrease in log costs in BC, and a 1 cent, or 1%, weaker Canadian dollar in the current quarter.

Pulp and paper results reflected substantially lower average Northern Bleached Softwood Kraft ("NBSK") pulp and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") US-dollar pricing, which more than offset increased production and shipments, materially lower pulp unit manufacturing costs, and the weaker Canadian Dollar.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)		**Q1 2020**		Q4 2019		Q1 2019
Sales[8]	**$**	**895.2**	$	857.8	$	844.7
Operating income (loss) before amortization[8]	**$**	**(16.6)**	$	43.7	$	(14.1)
Operating loss[8]	**$**	**(89.1)**	$	(27.5)	$	(72.5)
Countervailing and anti-dumping duties, net[9]	**$**	**44.4**	$	43.7	$	36.3
Inventory write-down (recovery)	**$**	**63.0**	$	(16.9)	$	38.6
Restructuring, mill closure and severance costs, net[10]	**$**	**1.0**	$	3.3	$	-
Adjusted operating income (loss)	**$**	**19.3**	$	2.6	$	2.4
Average WSPF 2x4 #2&Btr lumber price in US$[11]	**$**	**399**	$	380	$	372
Average WSPF 2x4 #2&Btr lumber price in Cdn$[11]	**$**	**536**	$	501	$	495
Average SYP 2x4 #2 lumber price in US$[12]	**$**	**386**	$	406	$	416
Average European indicative SPF lumber price in SEK[13]		**3,352**		3,540		4,111
Average European indicative SPF lumber price in US$[13]	**$**	**346**	$	368	$	448
Average European indicative SPF lumber price in Cdn$[13]	**$**	**466**	$	486	$	595
US housing starts (thousand units SAAR)[14]		**1,466**		1,441		1,213
Production – WSPF lumber (MMfbm)[15]		**628**		606		796
Production – SYP lumber (MMfbm)[15]		**364**		354		365
Production – European SPF lumber (MMfbm)[15, 17]		**293**		286		91
Shipments – WSPF lumber (MMfbm)[16]		**574**		624		743
Shipments – SYP lumber (MMfbm)[16]		**363**		342		352
Shipments – European SPF lumber (MMfbm)[16, 17]		**314**		258		95

[8] Q1 2020 includes sales of $227.9 million, operating income of $5.4 million, and operating income before amortization of $21.6 million from European SPF lumber operations (Q4 2019 – sales of $199.2 million, operating income of $11.0 million, and operating income before amortization of $27.4 million; Q1 2019 – sales of $87.6 million, operating income of $10.1 million, and operating income before amortization of $15.6 million). Operating income from the European SPF operations in Q1 2020 includes $11.3 million (Q4 2019 - $9.6 million; Q1 2019 - $5.7 million) in incremental amortization and other expenses driven by the purchase price allocation at acquisition date.

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

[10] Adjusted for restructuring, mill closure and severance costs, net, related to permanent and indefinite curtailments at Vavenby, Mackenzie and Isle Pierre sawmills, as well as the net loss recognized on sale of Vavenby tenure.

[11] 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.

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

[13] 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

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

[15] Excluding production of trim blocks.

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

[17] Q1 2019 includes one month of European SPF lumber shipments and production following the February 28, 2019 acquisition date of Vida.

Markets

The moderate up-tick in lumber market fundamentals and favourable macroeconomic conditions experienced at the end of 2019, particularly in North American home construction activity and the repair and remodeling sector, continued through the first part of the current quarter. Global lumber market conditions weakened, however, in late February and March as the effects of COVID-19 spread globally. US housing starts, on a seasonally adjusted basis, averaged 1,592,000 units for January and February, up 10% from the previous quarter; March housing starts experienced a steep decline to 1,216,000 units, a decrease of 22% in one month, the largest monthly decline in over thirty years, with continued downward pressure anticipated in April. In Canada, housing starts averaged 207,000 units on a seasonally adjusted basis in the first quarter of 2020, up 3% from the previous quarter, as slowing activity in major Eastern Canadian cities was offset by an up-tick in the Western Canadian market.

Offshore lumber demand was down, particularly in China and other Asian countries, as that region experienced widespread COVID-19 quarantine restrictions and reduced activity during the first quarter of 2020. European lumber demand was solid through most of the current quarter, but modest pricing pressure experienced late in 2019 from an increase in European supply due to the spruce beetle, continued into the first quarter of 2020.

Sales

Sales revenues for the lumber segment for the first quarter of 2020 were $895.2 million, compared to $857.8 million in the previous quarter and $844.7 million for the first quarter of 2019. The 4% increase in sales revenue compared to the prior quarter was primarily a result of a moderate increase in sales revenue from the Company's European SPF operations, largely due to significantly higher European SPF shipments and, to a lesser extent, a 1% weaker Canadian dollar (compared to the Swedish Krona ("SEK")), which more than offset the impact of a 5% decline in European SPF benchmark pricing in the current quarter. The Company's SYP operations' sales revenue modestly improved in the current quarter compared to the previous quarter, as a moderate increase in SYP shipments more than offset relatively flat SYP sales unit realizations. Sales revenues from the Company's Western SPF operations declined slightly quarter-over-quarter as a 5% increase in Western SPF benchmark pricing and a 2% weaker Canadian dollar were more than offset by an 8% decrease in Western WPF lumber shipments.

Sales revenues increased by 6% compared to the first quarter of 2019, reflecting the incremental benefit of a full quarter of European SPF lumber sales, combined with higher US-dollar Western SPF benchmark pricing and a weaker Canadian dollar, which more than offset lower Western SPF shipments.

Total lumber shipments, at 1.25 billion board feet, were slightly above the previous quarter, with significantly higher European SPF shipments and a moderate increase in SYP shipments in the current quarter more than offsetting decreased shipments of Western SPF lumber. The latter reflected weather-related transportation constraints and rail line blockades early in the period, combined with vessel disruptions, particularly to Asia, in the second half of the current quarter as a result of the COVID-19 outbreak.

Total lumber shipments were moderately higher than the first quarter of 2019, as the benefit of a full quarter of European SPF lumber shipment volumes more than offset the impact of materially lower Western SPF lumber shipments in the current quarter due, for the most part, to permanent and indefinite capacity reductions in BC in the second half of 2019.

The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US$19 per Mfbm, or 5%, from the previous quarter, at US$399 per Mfbm, as positive pricing momentum early in the current quarter, particularly from North American markets, more than outweighed the impact of COVID-19. The Western SPF 2x4 #2&Btr price increased significantly in January and February, reaching a high of US$442 per Mfbm, before declining dramatically to US$303 per Mfbm at the end of March, and to a low of US$282 per Mfbm early April, in the wake of the pandemic. Over the same comparative period, Western SPF lumber unit sales realizations showed a moderate increase in the first quarter of 2020, reflecting higher benchmark lumber prices for most dimensions combined with the weaker Canadian dollar.

For SYP lumber, moderate price increases for most wider-width SYP dimensions were offset by a decrease in the SYP East 2x4 #2 price, which fell 5% to US$386 per Mfbm.

The average European indicative SPF lumber benchmark price (an internally generated benchmark based on delivered price to the largest continental market), at 3,352 SEK per Mfbm, was down SEK 188 per Mfbm, or 5% (equivalent to US$346 per Mfbm, down US$22 per Mfbm, or 6%), from the previous quarter. Similar declines were seen for the Company's European SPF unit sales realizations quarter-over-quarter.

Compared to the first quarter of 2019, the average North American Random Lengths Western SPF 2x4 #2&Btr price was up US$27 per Mfbm, or 7%, with similar increases seen in Western SPF lumber unit sales realizations. SYP lumber unit sales realizations were moderately lower, principally reflecting SYP benchmark lumber price declines as the average North American Random Lengths SYP East 2x4 #2 price was down US$30 per Mfbm, or 7%, from the same comparative period. European SPF lumber unit sales realizations were moderately lower compared to the first quarter of 2019 reflecting a SEK 759 per Mfbm, or 18%, decline in the average European indicative SPF benchmark lumber price and a 4% strengthening of the Canadian dollar against the SEK, moderated in part by that region's high-value product mix.

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) increased slightly when compared to the previous quarter as seasonally higher log sales revenue, primarily related to pulp logs, more than offset a timing-related decline in pellet sales revenues. Compared to the first quarter of 2019, other revenues increased, principally due to the inclusion of the European other lumber-related revenues.

Operations

Total lumber production, at 1.29 billion board feet, was up 3% from the prior quarter, primarily reflecting an increase in operating days in all regions due to fewer statutory holidays, combined with higher production in the US South following capital-related downtime at two of the Company's sawmills in the previous quarter, as well as increased Western SPF production in the current quarter after the market-related downtime taken in the comparative period.

Compared to the first quarter of 2019, total lumber production was up slightly, principally reflecting the benefit of a full quarter of European SPF lumber operations, which continued to perform well in the current quarter, and which more than offset the impact of permanent and indefinite capacity reductions at Western SPF operations.

Lumber unit manufacturing and product costs were broadly in line with the prior quarter, as the benefit of increased Western SPF, SYP and, to a lesser extent, European SPF production, combined with lower market pricing on consumed log costs in Western Canada, more than offset higher seasonal lumber unit manufacturing costs in Europe. Compared to the first quarter of 2019, unit manufacturing and product costs were modestly lower, largely reflecting log cost declines in Europe and Western Canada.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[18]

(millions of Canadian dollars, unless otherwise noted)	Q1 2020	Q4 2019	Q1 2019
Sales	**$ 275.5**	$ 247.4	$ 304.0
Operating income before amortization[19]	**$ 27.7**	$ 0.1	$ 40.4
Operating income (loss)	**$ 6.1**	$ (23.5)	$ 18.1
Average NBSK pulp price delivered to China – US$[20, 21]	**$ 573**	$ 563	$ 700
Average NBSK pulp price delivered to China – Cdn$[20, 21]	**$ 770**	$ 743	$ 931
Production – pulp (000 mt)	**298**	286	274
Production – paper (000 mt)	**30**	28	35
Shipments – pulp (000 mt)	**290**	267	259
Shipments – paper (000 mt)	**34**	26	33

[18] 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.
[19] Amortization includes amortization of certain capitalized major maintenance costs.
[20] 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.
[21] Effective January 1, 2020, all RISI China market pricing has changed from "Delivered to China – Effective list price" to "Delivered to China – Net price" as distributed through Fastmarkets RISI.

Markets

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

Global softwood pulp producer inventories at the end of February 2020 remained well above the balanced range at 37 days[22] of supply, in line with December 2019 (market conditions are generally considered balanced when inventories are in the 27-34 days of supply range).

[22] 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").

Sales

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

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

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

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

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

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

Operations

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

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

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

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

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)		Q1 2020		Q4 2019		Q1 2019
Operating loss of Panels operations[23]	**$**	**(0.6)**	$	(1.1)	$	(0.5)
Corporate costs	**$**	**(5.2)**	$	(7.5)	$	(9.4)
Finance expense, net	**$**	**(15.7)**	$	(16.3)	$	(10.5)
Foreign exchange gain (loss) on long-term debt and duty deposits recoverable, net	**$**	**(14.7)**	$	3.9	$	(1.2)
Gain (loss) on derivative financial instruments	**$**	**4.0**	$	(0.5)	$	(28.4)
Other income, net	**$**	**7.3**	$	7.6	$	1.8

[23] 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 were $5.2 million for the first quarter of 2020, down $2.3 million from the previous quarter largely due to legal and consulting costs in connection with the Great Pacific Capital Corp. proposal incurred in the comparative period. Compared to the first quarter of 2019, corporate costs were down $4.2 million primarily reflecting costs associated with the closing of the Vida acquisition in the latter period, combined with reduced head office and general administrative expenses in the current quarter.

Net finance expense of $15.7 million for the first quarter of 2020 was broadly in line with the previous quarter. Compared to the first quarter of 2019, net finance expense was up $5.2 million largely reflecting increased interest expense associated with the debt financing of the Vida acquisition and first phase acquisition of Elliott in 2019.

In the first quarter of 2020, the Company recognized a foreign exchange loss on its US-dollar term debt held by Canadian entities, offset in part by a gain on US-dollar denominated net duty deposits recoverable due to the weaker Canadian dollar at the end of the quarter compared to the end of December 2019 (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 first quarter of 2020, the Company recorded a net gain of $4.0 million related to its derivatives instruments, primarily reflecting both realized gains and unrealized mark-to-market gains recognized upon settlement of SEK forward foreign exchange contracts during the quarter (loss of $0.5 million in the fourth quarter of 2019), combined with realized gains on lumber futures contracts. The net gain of $4.0 million in the first quarter of 2020 compared to a net loss of $28.4 million in the first quarter of 2019. The loss in the comparative period principally reflected mark-to-market losses recognized upon settlement of SEK forward foreign exchange contracts, which were one-time contracts entered into by the Company for the purpose of reducing the Company's risk against fluctuations in the SEK associated with the acquisition of Vida.

Other income, net, of $7.3 million in the first quarter of 2020 primarily reflected favourable 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)		Q1 2020		Q4 2019		Q1 2019
Defined benefit actuarial gains (losses), net of tax	**$**	**8.8**	$	3.9	$	(5.3)
Foreign exchange translation differences for foreign operations, net of tax	**$**	**52.8**	$	7.6	$	(3.7)
Other comprehensive income (loss), net of tax	**$**	**61.6**	$	11.5	$	(9.0)

In the first quarter of 2020, the Company recorded a gain of $12.0 million (before tax) related to changes in the valuation of the Company's employee future benefit plans, largely reflecting a 0.7% increase in the discount rate used to value the employee future benefit plans, driven by an increase in corporate bond credit spreads, partially offset by a lower than anticipated return on plan assets. This compared to a gain of $5.3 million (before tax) in the fourth quarter of 2019, as unfavourable actuarial experience adjustments were more than offset by a higher than anticipated return on plan assets. In the first quarter of 2019, the Company recorded a loss of $7.3 million (before tax), largely reflecting a 0.3% decrease in the discount rates used to value the employee future benefit plans.

In addition, the Company recorded an accounting gain of $52.8 million in the first quarter of 2020 related to foreign exchange differences for foreign operations due to the combination of a weakening Canadian dollar relative to both the US-dollar and the SEK at the end of the quarter. This compared to a gain of $7.6 million in the fourth quarter of 2019 and a loss of $3.7 million in the first 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 for ratios)		**Q1 2020**		Q4 2019		Q1 2019
Increase (decrease) in cash and cash equivalents[24]	**$**	**53.6**	$	(36.8)	$	(192.6)
Operating activities	**$**	**(6.8)**	$	126.9	$	(149.2)
Financing activities	**$**	**55.8**	$	(91.3)	$	603.4
Investing activities	**$**	**4.6**	$	(72.4)	$	(646.8)
Ratio of current assets to current liabilities		**1.4 : 1**		1.5 : 1		1.5 : 1
Net debt to capitalization[25]		**34.2%**		32.9%		30.3%

[24] Increase (decrease) in cash and cash equivalents shown before foreign exchange translation on cash and cash equivalents.
[25] 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 used $6.8 million of cash in the first quarter of 2020, compared to cash generated of $126.9 million in the previous quarter and cash used of $149.2 million in the first quarter of 2019. The decrease in operating cash flows from the previous quarter primarily reflected a seasonal log inventory build and increase in trade accounts receivable, offset in part by income tax refunds received in the current quarter. Compared to the first quarter of 2019, the increase in operating cash flows primarily reflected income tax refunds received in the current period, combined with favourable changes in non-cash working capital, primarily a reduction in the volume of lumber and log inventories on hand, quarter-over-quarter.

Financing Activities

Cash generated from financing activities was $55.8 million in the current quarter, compared to cash used of $91.3 million in the previous quarter and cash generated of $603.4 million in the first quarter of 2019. Financing activities in the current quarter were principally related to draw-downs on the Company's operating loan to finance working capital requirements. Cash used in financing activities in the fourth quarter of 2019 primarily included repayments of amounts drawn on the Company's operating loan facility combined with cash distributions to Vida's non-controlling shareholders. Cash generated from financing activities in the first quarter of 2019 were principally related to draw-downs on the Company's operating loan and long-term debt facilities used to finance the Vida acquisition.

Investing Activities

Cash generated from investing activities was $4.6 million for the current quarter, compared to cash used of $72.4 million for the previous quarter and cash used of $646.8 million for the same quarter of 2019. Investing activities in the current quarter included the closing of the sale of the Company's Vavenby forest tenure to Interfor Corporation ("Interfor") for net proceeds of $56.5 million. Compared to the first quarter of 2019, cash used was significantly lower principally due to the $562.3 million preliminary consideration paid for the acquisition of Vida (net of cash acquired). Capital additions in the first quarter of 2020 were $53.1 million, down $16.6 million from the previous quarter and down $21.6 million from the first quarter of 2019. Current quarter capital expenditures included several major capital upgrades at certain sawmills in the US South and the continued construction of a raw water treatment plant at CPPI's Intercontinental NBSK pulp mill.

Liquidity and Financial Requirements

Operating Loans - Consolidated

At March 31, 2020, on a consolidated basis, including CPPI and Vida, the Company had cash of $116.5 million, with $458.0 million drawn on its operating loan facilities, and an additional $77.6 million reserved for several standby letters of credit. Total available undrawn operating loans at the end of the quarter were $388.3 million, including the $100.0 million undrawn revolving facility and undrawn facilities for letters of credit.

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 March 31, 2020, Canfor, excluding CPPI and Vida, had available operating loan facilities totaling $720.0 million, with $430.0 million drawn on its principal committed operating loan facility and $64.4 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans. No amounts were drawn on the $100.0 million revolving credit facility as at March 31, 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 March 31, 2020, Vida had $17.0 million drawn on its $93.9 million operating loan facilities, leaving $76.9 million available and undrawn at the end of the quarter.

Operating Loans – CPPI

At March 31, 2020, CPPI had drawn $11.0 million from its $110.0 million operating loan facility, with $13.2 million reserved for several standby letters of credit under the operating loan facility, leaving $85.8 million available and undrawn on its operating loan facility at the end of the 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 long-term debt, excluding Vida, is unsecured. Vida's long-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 first quarter of 2020 was 34.2%. For Canfor, excluding CPPI, net debt to capitalization at the end of the first quarter of 2020 was 38.6%.

Debt Covenants

Canfor, Vida and CPPI remained in compliance with all covenants relating to their respective operating loan facilities and long-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.

Normal Course Issuer Bid

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

As at March 31, 2020 and April 22, 2020, there were 125,219,400 common shares of the Company outstanding, and Canfor's ownership interest in CPPI was at 54.8%.

Sale of Vavenby Tenure and Other Assets Held for Sale

On March 9, 2020, the Company completed the sale of the Vavenby forest tenure to Interfor for net proceeds of $56.5 million, including working capital and other adjustments. In addition, sale of the remaining Vavenby sawmill asset and liabilities to a third-party for $9.7 million is currently expected to close in 2020. As a result of these transactions, the Company recognized a net loss of $1.2 million, included in 'Restructuring, Mill Closure and Severance Costs, Net' on the Company's consolidated statement of income (loss) during the three months ended March 31, 2020.

OUTLOOK

In response to the significant global impacts of the COVID-19 pandemic, in late March and early April, Canfor announced a series of significant measures. These included extensive capacity reductions across all three of the Company's sawmill operating regions, most notably, impacting the majority of the Company's BC sawmills, as well as a three-week curtailment of CPPI's Northwood pulp mill in place of the previously scheduled spring maintenance turnaround (postponed until later in 2020). These curtailments are currently anticipated to result in a reduction of approximately 170 million board feet of Western SPF production, 50 million board feet of SYP production, 17 million board feet of European SPF production and 35,000 tonnes of NBSK pulp production in the second quarter of 2020. The Company also announced the immediate reduction of its planned capital expenditures for 2020, which were already modest, by $20.0 million for its lumber segment (principally Canadian and US operations) and by $15.0 million for its pulp and paper segment (in addition to the previously announced $40.0 million cost containment measures for Canfor Pulp), representing a decrease of approximately $100.0 million from 2019 capital expenditures. These reductions will be realized through the deferral of planned projects and suspension of in-progress initiatives that can be paused without significant impact.

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

With the impacts of COVID-19 anticipated to weigh heavily on the Company's 2020 financial performance, the Company has implemented corporate-wide initiatives focused on reducing working capital, which includes accelerating receipt of income tax refund receivables, leveraging payment deferral programs, and suspending all non-essential overhead spend. These initiatives, combined with a continued disciplined approach to cash management, materially reduced capital spending and no debt repayments until 2023 at the earliest, will allow the Company to preserve its solid balance sheet position.

Lumber

Looking forward, the impacts of COVID-19 on global macroeconomics are still unfolding and the Company anticipates lumber market conditions will remain extremely volatile through much of 2020. Global lumber market demand in recent weeks has declined sharply in the wake of closures of non-essential businesses and lockdowns implemented in many parts of North America and Europe. The Company currently anticipates that US home construction activity will remain at depressed levels with demand volatility varying on a regional basis. In North America, following a sharp fall-off in pricing from mid-March through early April, prices have stabilized somewhat in response to a material reduction in supply in recent weeks.

Lumber prices to China are seeing more moderate declines than North America, as that region is gradually returning to more normal business conditions following the early outbreak of the COVID-19 pandemic, while short-term prices to Japan are anticipated to be in line with the current quarter. European lumber markets and pricing are also being materially impacted by the aforementioned global economic downturn, and the Company currently anticipates market conditions will remain very challenging through the second quarter of 2020.

Pulp and Paper

Global softwood pulp demand is currently projected to be solid through the second quarter of 2020, particularly from China as that region continues to recover from the pandemic, while containment measures across Western Europe and North America are forecast to weigh on market demand for printing and writing paper. While pulp and paper operations are designated as essential services in many regions, it is projected that supply disruptions will continue in various regions as a result of the pronounced effects of COVID-19 on various business sectors, including lumber manufacturers. The current weakness in lumber markets may result in extended sawmill curtailments in the BC Interior, with the risk that lower volumes of sawmill residual chips available to pulp mills may cause additional downtime at CPPI's operations. Bleached kraft paper markets are currently anticipated to be solid through the second quarter of 2020, particularly in North America, as the impact of COVID-19 is projected to lead to increased demand for bleached kraft paper products that meet food grade specifications.

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 March 31, 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 March 31, 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 the first quarter of 2020 and as the situation continues to rapidly evolve, the magnitude of its effects on the economy and on Canfor's financial and operational performance, is uncertain at this time.

In response to the significant global impacts of the COVID-19 pandemic, in late March and early April Canfor announced a series of operational measures, including extensive capacity reductions across all three of the Company's sawmill operating regions, as well as a three-week curtailment of CPPI's Northwood pulp mill and reductions in capital spending for 2020.

Significant health and safety measures have 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 travellers and any employees exhibiting symptoms or exposed to the virus, implementing physical distancing parameters between individuals, increasing cleaning and sanitization in workplaces, and where possible, instructing employees to work remotely to reduce interpersonal contact. Forestry, including pulp and paper, has been deemed an essential service in all the provinces and states where Canfor operates.

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 1,170.7**	$ 1,105.2	$ 1,091.4	$ 1,313.0	$ 1,148.7	$ 1,028.1	$ 1,323.3	$ 1,459.5
Operating income (loss)	**$ (88.8)**	$ (59.6)	$ (120.3)	$ (50.1)	$ (64.3)	$ (79.1)	$ 201.8	$ 282.1
Net income (loss)	**$ (65.2)**	$ (46.1)	$ (103.9)	$ (40.7)	$ (79.0)	$ (46.0)	$ 144.9	$ 198.6
Shareholder net income (loss)	**$ (70.0)**	$ (39.1)	$ (88.5)	$ (48.8)	$ (86.6)	$ (52.4)	$ 125.3	$ 169.8
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ (0.56)**	$ (0.31)	$ (0.71)	$ (0.39)	$ (0.69)	$ (0.42)	$ 0.98	$ 1.32
Book value[26]	**$ 13.04**	$ 13.14	$ 13.33	$ 14.15	$ 14.71	$ 16.42	$ 16.66	$ 15.95
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)[27]	**1,220**	1,224	1,232	1,474	1,190	1,114	1,291	1,351
Pulp shipments (000 mt)	**290**	267	213	288	259	231	262	329
Average exchange rate – US$/Cdn$	**$ 0.744**	$ 0.758	$ 0.757	$ 0.748	$ 0.752	$ 0.758	$ 0.765	$ 0.774
Average exchange rate – SEK/Cdn$	**7.203**	7.281	7.262	7.059	6.905	6.842	6.844	6.720
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 399**	$ 380	$ 356	$ 333	$ 372	$ 327	$ 482	$ 598
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 386**	$ 406	$ 410	$ 393	$ 416	$ 457	$ 488	$ 589
Average European indicative SPF lumber price in SEK[28]	**3,352**	3,540	3,652	4,003	4,111	4,235	4,284	4,145
Average NBSK pulp list price delivered to China (US$)[29]	**$ 573**	$ 563	$ 555	$ 630	$ 700	$ 803	$ 877	$ 900

[26] 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.
[27] Canfor-produced lumber, including lumber purchased for remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.
[28] European indicative lumber price is an internally generated benchmark based on delivered price to the largest continental market.
[29] 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)	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Shareholder net income (loss), as reported	**$ (70.0)**	$ (39.1)	$ (88.5)	$ (48.8)	$ (86.6)	$ (52.4)	$ 125.3	$ 169.8
Foreign exchange (gain) loss on long-term debt and duty deposits recoverable, net	**$ 13.1**	$ (3.6)	$ 2.1	$ (2.9)	$ 0.8	$ 2.1	$ (0.7)	$ 1.0
Countervailing and anti-dumping duties expense, net	**$ 32.4**	$ 31.9	$ 39.1	$ 33.0	$ 26.5	$ 28.8	$ 31.1	$ 37.7
(Gain) loss on derivative financial instruments	**$ (2.4)**	$ 0.2	$ 0.1	$ (1.7)	$ 25.4	$ (6.5)	$ 1.2	$ 5.6
Restructuring, mill closure and severance costs, net	**$ 0.7**	$ 2.4	$ 4.7	$ 8.4	$ -	$ -	$ -	$ -
Net impact of above items	**$ 43.8**	$ 30.9	$ 46.0	$ 36.8	$ 52.7	$ 24.4	$ 31.6	$ 44.3
Adjusted shareholder net income (loss)	**$ (26.2)**	$ (8.2)	$ (42.5)	$ (12.0)	$ (33.9)	$ (28.0)	$ 156.9	$ 214.1
Shareholder net income (loss) per share (EPS), as reported	**$ (0.56)**	$ (0.31)	$ (0.71)	$ (0.39)	$ (0.69)	$ (0.42)	$ 0.98	$ 1.32
Net impact of above items per share	**$ 0.35**	$ 0.25	$ 0.37	$ 0.29	$ 0.42	$ 0.19	$ 0.25	$ 0.34
Adjusted net income (loss) per share	**$ (0.21)**	$ (0.06)	$ (0.34)	$ (0.10)	$ (0.27)	$ (0.23)	$ 1.23	$ 1.66

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at March 31, 2020**		As at December 31, 2019
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**116.5**	$	60.1
Accounts receivable - Trade		**306.6**		259.7
- Other		**32.8**		41.3
Income taxes receivable		**131.3**		112.5
Inventories (Note 3)		**875.8**		803.9
Prepaid expenses and other		**79.4**		64.0
Assets held for sale (Note 7)		**8.6**		69.0
Total current assets		**1,551.0**		1,410.5
Property, plant and equipment		**1,982.9**		1,974.5
Right-of-use assets		**78.0**		68.5
Timber licenses		**442.1**		445.7
Goodwill and other intangible assets		**464.5**		447.3
Long-term investments and other (Note 4)		**168.3**		173.7
Retirement benefit surplus (Note 6)		**1.9**		5.9
Deferred income taxes, net		**2.3**		0.9
Total assets	**$**	**4,691.0**	$	4,527.0
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**509.9**	$	478.4
Operating loans (Note 5(a))		**458.0**		382.0
Current portion of deferred reforestation obligations		**51.0**		51.0
Current portion of long-term debt (Note 5(b))		**13.5**		13.0
Other current liability		**14.0**		13.0
Current portion of lease obligations		**23.3**		21.3
Income taxes payable		**2.4**		5.5
Liabilities held for sale (Note 7)		**0.5**		3.3
Total current liabilities		**1,072.6**		967.5
Long-term debt (Note 5(b))		**715.0**		681.7
Retirement benefit obligations (Note 6)		**220.2**		237.0
Lease obligations		**58.7**		50.9
Deferred reforestation obligations		**74.4**		56.3
Other long-term liabilities		**32.3**		32.9
Put liability (Note 8)		**115.5**		111.9
Deferred income taxes, net		**341.0**		319.9
Total liabilities	**$**	**2,629.7**	$	2,458.1
EQUITY				
Share capital	**$**	**987.9**	$	987.9
Contributed surplus and other equity		**(85.1)**		(82.8)
Retained earnings		**611.3**		674.3
Accumulated other comprehensive income		**118.7**		65.9
Total equity attributable to equity shareholders of the Company		**1,632.8**		1,645.3
Non-controlling interests		**428.5**		423.6
Total equity	**$**	**2,061.3**	$	2,068.9
Total liabilities and equity	**$**	**4,691.0**	$	4,527.0

Contingencies (Note 14)

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 March 31, **2020**		2019
Sales	**$**	**1,170.7**	$	1,148.7
Costs and expenses				
Manufacturing and product costs		**945.7**		903.6
Freight and other distribution costs		**148.2**		160.0
Countervailing and anti-dumping duty expense, net (Note 13)		**44.4**		36.3
Amortization		**94.4**		80.9
Selling and administration costs		**25.8**		32.2
Restructuring, mill closure and severance costs, net (Note 7)		**1.0**		-
		1,259.5		1,213.0
Operating loss		**(88.8)**		(64.3)
Finance expense, net		**(15.7)**		(10.5)
Foreign exchange gain (loss) on long-term debt		**(17.3)**		0.5
Foreign exchange gain (loss) on duties recoverable, net		**2.6**		(1.7)
Gain (loss) on derivative financial instruments (Note 8)		**4.0**		(28.4)
Other income, net		**7.3**		1.8
Net loss before income taxes		**(107.9)**		(102.6)
Income tax recovery (Note 9)		**42.7**		23.6
Net loss	**$**	**(65.2)**	$	(79.0)
Net loss attributable to:				
Equity shareholders of the Company	**$**	**(70.0)**	$	(86.6)
Non-controlling interests		**4.8**		7.6
Net loss	**$**	**(65.2)**	$	(79.0)
Net loss per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 10)	**$**	**(0.56)**	$	(0.69)

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 March 31, **2020**		2019
Net loss	**$**	**(65.2)**	$	(79.0)
Other comprehensive income (loss)				
Items that will not be recycled through net loss:				
Defined benefit plan actuarial gains (losses) (Note 6)		**12.0**		(7.3)
Income tax recovery (expense) on defined benefit plan actuarial losses/gains (Note 9)		**(3.2)**		2.0
		8.8		(5.3)
Items that may be recycled through net loss:				
Foreign exchange translation of foreign operations, net of tax		**52.8**		(3.7)
Other comprehensive income (loss), net of tax		**61.6**		(9.0)
Total comprehensive loss	**$**	**(3.6)**	$	(88.0)
Total comprehensive loss attributable to:				
Equity shareholders of the Company	**$**	**(10.2)**	$	(94.5)
Non-controlling interests		**6.6**		6.5
Total comprehensive loss	**$**	**(3.6)**	$	(88.0)

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 March 31, **2020**		2019
Share capital				
Balance at beginning of period	**$**	**987.9**	$	987.9
Balance at end of period	**$**	**987.9**	$	987.9
Contributed surplus and other equity				
Balance at beginning of period	**$**	**(82.8)**	$	31.9
Put liability related to Vida acquisition (Note 8)		**(2.3)**		(118.6)
Balance at end of period	**$**	**(85.1)**	$	(86.7)
Retained earnings				
Balance at beginning of period	**$**	**674.3**	$	931.1
Net loss attributable to equity shareholders of the Company		**(70.0)**		(86.6)
Defined benefit plan actuarial gains (losses), net of tax		**7.0**		(4.2)
Impact of change in lease accounting policy		**-**		(1.6)
Balance at end of period	**$**	**611.3**	$	838.7
Accumulated other comprehensive income				
Balance at beginning of period	**$**	**65.9**	$	105.5
Foreign exchange translation of foreign operations, net of tax		**52.8**		(3.7)
Balance at end of period	**$**	**118.7**	$	101.8
Total equity attributable to equity shareholders of the Company	**$**	**1,632.8**	$	1,841.7
Non-controlling interests				
Balance at beginning of period	**$**	**423.6**	$	283.5
Net income attributable to non-controlling interests		**4.8**		7.6
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of tax		**1.8**		(1.1)
Distributions to non-controlling interests		**(1.7)**		(5.0)
Impact of change in lease accounting policy		**-**		(0.1)
Acquisition of non-controlling interests		**-**		171.2
Balance at end of period	**$**	**428.5**	$	456.1
Total equity	**$**	**2,061.3**	$	2,297.8

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 March 31, **2020**	2019
Cash generated from (used in):		
Operating activities		
Net loss	**$ (65.2)**	$ (79.0)
Items not affecting cash:		
Amortization	**94.4**	80.9
Income tax recovery	**(42.7)**	(23.6)
Long-term portion of deferred reforestation obligations	**18.0**	16.2
Foreign exchange (gain) loss on long-term debt	**17.3**	(0.5)
Foreign exchange (gain) loss on duty deposits recoverable, net (Note 4)	**(2.6)**	1.7
Adjustment to accrued duties (Note 13)	**11.3**	3.1
Changes in mark-to-market value of derivative financial instruments (Note 8)	**(1.6)**	17.0
Employee future benefits expense	**2.5**	2.9
Restructuring, mill closure and severance costs, net (Note 7)	**1.0**	-
Finance expense, net	**15.7**	10.5
Other, net	**0.1**	(0.8)
Restructuring, mill closure and severance costs paid (Note 7)	**(2.0)**	-
Defined benefit plan contributions, net	**(5.3)**	(4.7)
Income taxes received (paid), net	**28.8**	(9.6)
	69.7	14.1
Net change in non-cash working capital (Note 11)	**(76.5)**	(163.3)
	(6.8)	(149.2)
Financing activities		
Change in operating loans (Note 5(a))	**75.8**	387.4
Proceeds from long-term debt	**0.7**	231.7
Repayment of long-term debt	**(0.1)**	(0.2)
Payment of lease obligations	**(5.6)**	(3.3)
Finance expenses paid	**(13.3)**	(7.2)
Cash distributions paid to non-controlling interests	**(1.7)**	(5.0)
	55.8	603.4
Investing activities		
Additions to property, plant and equipment, timber and intangible assets, net	**(53.1)**	(74.7)
Proceeds on disposal of property, plant and equipment	**0.5**	0.2
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)
Other, net	**0.7**	(0.3)
	4.6	(646.8)
Foreign exchange gain on cash and cash equivalents	**2.8**	1.7
Increase (decrease) in cash and cash equivalents*	**56.4**	(190.9)
Cash and cash equivalents at beginning of period*	**60.1**	252.7
Cash and cash equivalents at end of period*	**$ 116.5**	$ 61.8

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Corporation and its subsidiary entities, including Canfor Pulp Products Inc. ("CPPI") and the Vida Group of Sweden ("Vida"), 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 April 22, 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. For example, 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 March 31, 2020**	As at December 31, 2019
Logs	**$ 250.9**	$ 185.5
Finished products	**464.6**	452.6
Residual fibre	**31.6**	38.7
Materials and supplies	**128.7**	127.1
	$ 875.8	$ 803.9

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended March 31, 2020, an additional $63.0 million inventory write-down was recognized for the lumber segment (three months ended March 31, 2019 - $38.6 million write-down). After taking account of the draw-down of a specific provision for Vavenby and Mackenzie inventory of $10.5 million, with no corresponding income statement impact during the three months ended March 31, 2020, a net inventory provision for logs and lumber of $80.6 million was recognized at March 31, 2020 (December 31, 2019 – provision of $28.1 million).

For the three months ended March 31, 2020, a $10.7 million write-down recovery was recognized in the pulp and paper segment (three months ended March 31, 2019 - $0.3 million write-down), eliminating the inventory provision for pulp logs, finished products and raw materials at March 31, 2020 (December 31, 2019 – provision of $10.7 million).

Inventory expensed in 2020 and 2019 includes manufacturing and product costs and amortization.

4. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)		As at March 31, 2020		As at December 31, 2019
Investment in Elliott Sawmilling Co., LLC	**$**	**78.7**	$	78.1
Other investments		**11.9**		11.4
Duty deposits recoverable, net (Note 13)		**23.3**		32.4
Other deposits, loans, advances and long-term assets		**54.4**		51.8
	$	**168.3**	$	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 March 31, 2020 (Note 13).

5. Operating Loans and Long-Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)		As at March 31, 2020		As at December 31, 2019
Canfor (excluding Vida and CPPI)				
Available operating loans:				
Operating loan facility	**$**	**550.0**	$	550.0
Revolving credit facility		**100.0**		100.0
Facilities for letters of credit		**70.0**		70.0
Total operating loan facilities		**720.0**		720.0
Operating loan facility drawn		**(430.0)**		(350.0)
Letters of credit		**(64.4)**		(65.2)
Total available operating loan facilities - Canfor	**$**	**225.6**	$	304.8
Vida				
Available operating loans:				
Operating loan facilities	**$**	**72.0**	$	71.0
Overdraft facilities		**21.9**		21.5
Total operating loan facilities		**93.9**		92.5
Operating loan facilities drawn		**(0.2)**		(0.2)
Overdraft facilities drawn		**(16.8)**		(17.8)
Total available operating loan facilities - Vida	**$**	**76.9**	$	74.5
CPPI				
Available operating loans:				
Operating loan facility	**$**	**110.0**	$	110.0
Letters of credit		**(13.2)**		(13.2)
Operating loan facility drawn		**(11.0)**		(14.0)
Total available operating loan facility - CPPI	**$**	**85.8**	$	82.8
Consolidated:				
Total operating loan facilities	**$**	**923.9**	$	922.5
Total available operating loan facilities	**$**	**388.3**	$	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.

Canfor (excluding Vida and CPPI) has a separate facility to cover letters of credit. At March 31, 2020, $61.9 million of letters of credit outstanding are covered under this facility with the balance of $2.5 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 March 31, 2020, the Company had total available undrawn operating loans of $388.3 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 March 31, 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) Long-Term Debt

(millions of Canadian dollars, unaudited)		**As at March 31, 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		**281.1**		259.7
US$100.0 million, fixed interest of 4.4%, repayable in three equal tranches on October 2, 2023, 2024 and 2025		**140.6**		129.9
Other (US$7.7 million)[1]		**10.7**		9.9
Vida				
SEK 129.5 million, floating interest, repayable in instalments up to December 31, 2020[2]		**18.3**		10.4
SEK 12.5 million, floating interest, repayable in instalments up to April 30, 2022		**1.8**		2.0
SEK 2.3 million, floating interest, repayable in instalments up to August 31, 2024		**0.3**		0.3
SEK 3.0 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		**0.3**		7.0
CPPI				
CAD $50.0 million, floating interest, repayable September 30, 2022		**50.0**		50.0
Long-term debt at end of period	**$**	**728.5**	$	694.7
Less: Current portion		**(13.5)**		(13.0)
Long-term portion	**$**	**715.0**	$	681.7

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

Canfor's long-term debt (excluding Vida) is unsecured. Vida's long-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 March 31, 2020, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their long-term debt.

Fair value of total long-term debt

At March 31, 2020, the fair value of the Company's long-term debt is $728.1 million (December 31, 2019 - $700.6 million) determined based on prevailing market rates for the long-term debt with similar characteristics and risk profile.

6. Employee Future Benefits

For the three months ended March 31, 2020, defined benefit pension plan actuarial gains of $12.0 million (before tax) were recognized in other comprehensive income (loss), reflecting a higher discount rate used to value the net defined benefit obligations, offset in part by a lower than anticipated return on plan assets.

For the three months ended March 31, 2019, defined benefit pension plan actuarial losses of $7.3 million (before tax) were recognized in other comprehensive income (loss), reflecting a lower discount rate used to value the net defined benefit obligation, offset in part by a higher than anticipated return on plan assets. The discount rate assumptions used to estimate the changes in net retirement benefit obligations were as follows:

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

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. In addition, sale of the remaining Vavenby sawmill asset and liabilities to a third-party for $9.7 million is currently expected to close in 2020. As a result of these transactions, the Company recognized a net loss of $1.2 million, included in 'Restructuring, Mill Closure and Severance Costs, Net' on the Company's consolidated statement of income (loss) during the three months ended March 31, 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 long-term debt are classified as measured at amortized cost in accordance with IFRS 9. The carrying amounts of these instruments, excluding long-term debt, approximate fair value at March 31, 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 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 at March 31, 2020 and December 31, 2019, 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 March 31, 2020**	As at December 31, 2019
Financial assets measured at fair value			
Investments	Level 1	**$ 11.2**	$ 10.7
Derivative financial instruments	Level 2	**1.9**	0.3
		$ 13.1	$ 11.0
Financial liabilities measured at fair value			
Put liability	Level 3	**$ 115.5**	$ 111.9

The following table summarizes the gains (losses) on derivative financial instruments recognized in the consolidated statement of income (loss) for the three months ended March 31, 2020 and March 31, 2019:

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2020	2019
Lumber futures	**$ 0.8**	$ 5.1
Foreign exchange forward contracts	**3.2**	(33.5)
Gain (loss) on derivative financial instruments	**$ 4.0**	$ (28.4)

During the three months ended March 31, 2020, a loss of $2.3 million was 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 are as follows:

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2020	2019
Current	**$ 51.7**	$ 16.7
Deferred	**(9.0)**	6.9
Income tax recovery	**$ 42.7**	$ 23.6

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

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2020	2019
Income tax recovery at statutory rate – 27% (2019 – 27%)	**$ 29.1**	$ 27.7
Add (deduct):		
Entities with different income tax rates and other tax adjustments	**16.0**	0.8
Permanent difference from capital gains and losses and other non-deductible items	**(2.4)**	(4.9)
Income tax recovery	**$ 42.7**	$ 23.6

In addition to the amounts recorded to net loss, a tax expense of $3.2 million was recorded in other comprehensive income (loss) for the three months ended March 31, 2020 in relation to actuarial gains on the defined benefit plans (three months ended March 31, 2019 – recovery of $2.0 million in relation to actuarial losses).

Also included in other comprehensive income (loss) for the three months ended March 31, 2020 was a tax expense of $3.1 million related to foreign exchange differences on translation of investments in foreign operations (three months ended March 31, 2019 – recovery of $0.8 million).

10. Earnings (Loss) Per Share and Normal Course Issuer Bid

Basic net loss per share is calculated by dividing the net loss attributable to common equity shareholders by the weighted average number of common shares outstanding during the period.

	3 months ended March 31, 2020	2019
Weighted average number of common shares	**125,219,400**	125,219,400

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

As at March 31, 2020 and April 22, 2020 there were 125,219,400 common shares of the Company outstanding, and Canfor's ownership interest in CPPI was 54.8%.

11. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2020	2019
Accounts receivable	**$ (33.7)**	$ (65.5)
Inventories	**(62.8)**	(97.1)
Prepaid expenses and other	**(14.3)**	(19.9)
Accounts payable and accrued liabilities, current portion of deferred reforestation and other current liabilities	**34.3**	19.2
Net change in non-cash working capital	**$ (76.5)**	$ (163.3)

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'.

(millions of Canadian dollars, unaudited)	Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment	Consolidated
3 months ended March 31, 2020					
Sales from contracts with customers	**$ 895.2**	**$ 275.5**	**$ -**	**$ -**	**$ 1,170.7**
Sales to other segments	**50.0**	**0.1**	**-**	**(50.1)**	**-**
Operating income (loss)	**(89.1)**	**6.1**	**(5.8)**	**-**	**(88.8)**
Amortization	**72.5**	**21.6**	**0.3**	**-**	**94.4**
Capital expenditures[3]	**34.0**	**18.8**	**0.3**	**-**	**53.1**
Identifiable assets	**3,459.5**	**893.7**	**337.8**	**-**	**4,691.0**
3 months ended March 31, 2019					
Sales from contracts with customers	$ 844.7	$ 304.0	$ -	$ -	$ 1,148.7
Sales to other segments	63.4	-	-	(63.4)	-
Operating income (loss)	(72.5)	18.1	(9.9)	-	(64.3)
Amortization	58.4	22.3	0.2	-	80.9
Capital expenditures[3]	48.3	25.5	0.9	-	74.7
Identifiable assets	3,726.8	933.8	252.0	-	4,912.6

[3]Capital expenditures represent cash paid for capital assets during the periods, excluding assets purchased as part of the acquisition of Vida. 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.

(millions of Canadian dollars, unaudited)	3 months ended March 31, %	2020	3 months ended March 31, %	2019
Sales by location of customer				
Canada	**11**	**$ 129.9**	11	$ 129.4
Asia	**21**	**246.2**	28	316.3
United States	**49**	**568.1**	50	577.8
Europe	**16**	**191.3**	8	92.2
Other	**3**	**35.2**	3	33.0
	100	**$ 1,170.7**	100	$ 1,148.7

13. 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 March 31, 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 $229.5 million (US$163.3 million).

Upon finalization of these rates (currently anticipated in 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). 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%).

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 16.0% for the three months ended March 31, 2020, resulting in a current combined CVD and ADD rate of 29.24%, unchanged from the second period of review.

Summary

As at March 31, 2020, Canfor has paid cumulative cash deposits of $454.5 million. For accounting purposes, a net duty recoverable of $23.3 million is included on the Company's March 31, 2020 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 and POR3: 29.24%).

For the three months ended March 31, 2020, the Company recorded a net duty expense of $44.4 million, comprised of cash deposits paid of $33.1 million, and an additional expense of $11.3 million reflecting the Company's estimated accrual rate for 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).

14. Contingencies

Coronavirus Outbreak

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

In response to the significant global impacts of the COVID-19 pandemic, in late March and early April Canfor announced a series of measures, including extensive capacity reductions across all three of the Company's sawmill operating regions, as well as a three-week curtailment of the CPPI's Northwood pulp mill and reductions in capital spending for 2020.

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