

News Release

Canfor Pulp Products Inc.

FOR IMMEDIATE RELEASE

July 23, 2020

CANFOR PULP REPORTS RESULTS FOR SECOND QUARTER OF 2020

Vancouver, BC - Canfor Pulp Products Inc. ("The Company" or "CPPI") (TSX: CFX) today reported second quarter 2020 results:

Overview

- Second quarter of 2020 reported operating loss of \$6 million, includes \$8 million inventory write-down
- Net loss of \$1 million, or \$0.02 per share

Financial Results

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

(millions of Canadian dollars, except per share amounts)	Q2 2020	Q1 2020	YTD 2020	Q2 2019	YTD 2019
Sales	\$ 250.7	\$ 275.6	\$ 526.3	\$ 319.5	\$ 623.5
Reported operating income before amortization	\$ 13.3	\$ 27.7	\$ 41.0	\$ 41.7	\$ 82.1
Reported operating income (loss)	\$ (6.3)	\$ 6.1	\$ (0.2)	\$ 18.4	\$ 36.5
Adjusted operating income before amortization ¹	\$ 21.5	\$ 17.0	\$ 38.5	\$ 55.1	\$ 95.8
Adjusted operating income (loss) ¹	\$ 1.9	\$ (4.6)	\$ (2.7)	\$ 31.8	\$ 50.2
Net income (loss)	\$ (1.1)	\$ 7.0	\$ 5.9	\$ 10.6	\$ 21.4
Net income (loss) per share, basic and diluted	\$ (0.02)	\$ 0.11	\$ 0.09	\$ 0.16	\$ 0.33

¹ Adjusted for inventory write-downs and recoveries (\$8.2 million net write-down in Q2 2020; \$10.7 million recovery in Q1 2020; \$13.4 million net write-down in Q2 2019).

The Company reported an operating loss of \$6.3 million for the second quarter of 2020, down \$12.4 million from operating income of \$6.1 million reported for the first quarter of 2020. Reported results for the second quarter of 2020 included an \$8.2 million finished pulp and raw material inventory write-down at period end. After adjusting for this, the Company's operating income was \$1.9 million for the second quarter of 2020, up \$6.5 million from a similarly adjusted operating result in the previous quarter.

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

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

Average US-dollar NBSK pulp list prices to China were US\$572 per tonne, broadly in line with the prior quarter; however, the Company's NBSK pulp unit sales realizations benefited from a 2 cent, or 3%, weaker Canadian dollar, combined with a US\$31 per tonne, or 3%, increase in the average US-dollar price to North America (before discounts, which were largely unchanged quarter-over-quarter), and to a lesser extent, the timing of shipments (versus orders).

Energy revenues were down quarter-over-quarter, largely reflecting seasonally lower energy prices combined with decreased energy generation in the current quarter associated with lower production.

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

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

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

Operating income in the Company's paper segment was \$7.4 million, up \$0.6 million from the previous quarter, principally reflecting increases in paper production and shipments of 3,000 tonnes and 2,000 tonnes, respectively. This was combined with slightly higher paper unit sales realizations, which more than offset increased paper unit manufacturing costs in the current quarter. The latter was due to moderately higher slush pulp costs driven by increased Canadian dollar NBSK pulp unit sales realizations.

At June 30, 2020, the Company had net cash of \$6.0 million and available liquidity of \$153.1 million. Available liquidity improved by \$49.3 million during the current quarter, largely reflecting a decrease of accounts receivable balances combined with reduced capital spending and a number of additional initiatives underway as part of the Company's response to COVID-19. The Company remains in full compliance with all covenants relating to operating loan facilities and term debt and expects to remain so for the foreseeable future.

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

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

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

Bleached kraft paper markets are anticipated to be relatively stable in North America through the third quarter of 2020, with a steady projected demand for bleached kraft paper products that meet food grade specifications. Offshore bleached kraft paper markets are anticipated to soften slightly over the same period.

Commenting on the Company's second quarter results, CPPI's Chief Executive Officer, Don Kayne said, "Despite the various challenges presented by COVID-19, including material fibre supply disruptions as a result of sawmill curtailments, we managed to preserve our strong cash position through the second quarter. As we continue to navigate the global impacts of the COVID-19 pandemic on our business, our top priority remains to ensure the health and safety of our employees, while taking the necessary steps to protect the business and optimize liquidity. As a result of the current summer production curtailments at our PG and Intercontinental mills, we should be well placed

to run at full capacity through the winter. We continue to actively monitor the ongoing situation in these unprecedented times and remain prepared to take further action as required.”

Additional Information and Conference Call

A conference call to discuss the second quarter’s financial and operating results will be held on Friday, July 24, 2020 at 8:00 AM Pacific time. To participate in the call, please dial Toll-Free 1-888-390-0546. For instant replay access until August 7, 2020, please dial Toll-Free 1-888-390-0541 and enter participant pass code 203861#. The conference call will be webcast live and will be available at www.canfor.com. This news release, the attached financial statements and a presentation used during the conference call can be accessed via the Company’s website at <http://www.canfor.com/investor-relations/webcasts>.

Non-IFRS Measures and Forward Looking Statements

Operating Income (Loss) before Amortization and Adjusted Operating Income (Loss) are not generally accepted earnings measures and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. Refer to the Company’s Annual Management’s Discussion and Analysis for a reconciliation of Operating Income (Loss) reported in accordance with IFRS to Operating Income (Loss) before Amortization and to Adjusted Operating Income (Loss).

Certain statements in this press release constitute “forward-looking statements” which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as “expects”, “anticipates”, “projects”, “intends”, “plans”, “will”, “believes”, “seeks”, “estimates”, “should”, “may”, “could”, and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management’s current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and Canfor assumes no obligation to update such information to reflect later events or developments, except as required by law.

Canfor Pulp Products Inc. (“Canfor Pulp” or “CPPI”) is a leading global supplier of pulp and paper products with operations in the central interior of British Columbia (“BC”) employing approximately 1,300 people throughout the organization. Canfor Pulp owns and operates three mills in Prince George, BC with a total capacity of 1.1 million tonnes of Premium Reinforcing Northern Bleached Softwood Kraft (“NBSK”) Pulp and 140,000 tonnes of kraft paper, as well as one mill in Taylor, BC with an annual production capacity of 230,000 tonnes of Bleached Chemi-Thermo Mechanical Pulp (“BCTMP”). Canfor Pulp is the largest North American and one of the largest global producers of market NBSK Pulp. CPPI shares are traded on the Toronto Stock Exchange under the symbol CFX. For more information visit canfor.com.

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

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the quarter ended June 30, 2020 relative to the quarters ended March 31, 2020 and June 30, 2019, and the financial position of the Company at June 30, 2020. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended, June 30, 2020 and 2019, as well as the 2019 annual MD&A and the 2019 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2019 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income (Loss) before Amortization which CPPI considers to be a relevant indicator for measuring trends in the Company's performance and its ability to generate funds to meet its debt service and capital expenditure requirements, and to pay dividends. Reference is also made to Adjusted Net Income (Loss) (calculated as Net Income (Loss) less specific items affecting comparability with prior periods) and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, CPPI's Operating Income (Loss) before Amortization, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income (Loss) before Amortization to Operating Income (Loss) and Adjusted Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in this MD&A. Throughout this discussion reference is made to the current quarter which refers to the results for the second quarter of 2020.

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

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

Forward Looking Statements

Certain statements in this press release constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

SECOND QUARTER 2020 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except ratios)	Q2 2020	Q1 2020	YTD 2020	Q2 2019	YTD 2019
Operating income (loss) by segment:					
Pulp	\$ (12.0)	\$ 1.1	\$ (10.9)	\$ 12.9	\$ 28.4
Paper	\$ 7.4	\$ 6.8	\$ 14.2	\$ 8.1	\$ 14.0
Unallocated	\$ (1.7)	\$ (1.8)	\$ (3.5)	\$ (2.6)	\$ (5.9)
Total operating income (loss)	\$ (6.3)	\$ 6.1	\$ (0.2)	\$ 18.4	\$ 36.5
Add: Amortization ¹	\$ 19.6	\$ 21.6	\$ 41.2	\$ 23.3	\$ 45.6
Total operating income before amortization	\$ 13.3	\$ 27.7	\$ 41.0	\$ 41.7	\$ 82.1
Add (deduct):					
Working capital movements	\$ 42.8	\$ (22.6)	\$ 20.2	\$ 13.4	\$ (20.7)
Defined benefit plan contributions, net	\$ (1.0)	\$ (1.4)	\$ (2.4)	\$ (1.4)	\$ (2.5)
Income taxes received (paid)	\$ -	\$ 29.3	\$ 29.3	\$ (0.4)	\$ (4.4)
Other operating cash flows, net	\$ 6.8	\$ 6.5	\$ 13.3	\$ (1.0)	\$ (1.6)
Cash from operating activities	\$ 61.9	\$ 39.5	\$ 101.4	\$ 52.3	\$ 52.9
Add (deduct):					
Dividends paid	\$ -	\$ (4.1)	\$ (4.1)	\$ (4.1)	\$ (8.2)
Capital additions, net	\$ (12.2)	\$ (18.8)	\$ (31.0)	\$ (24.4)	\$ (49.9)
Other, net	\$ (0.7)	\$ (1.6)	\$ (2.3)	\$ (1.2)	\$ (2.1)
Change in cash / operating loans	\$ 49.0	\$ 15.0	\$ 64.0	\$ 22.6	\$ (7.3)
ROIC – Consolidated period-to-date ²	0.4%	0.9%	1.3%	2.4%	4.8%
Average exchange rate (US\$ per C\$1.00)³	\$ 0.722	\$ 0.744	\$ 0.733	\$ 0.748	0.750

¹ Amortization includes amortization of certain capitalized major maintenance costs.

² Consolidated Return on Invested Capital ("ROIC") is equal to operating income (loss) plus other income (expense), divided by the average invested capital during the period. Invested capital represents total assets excluding cash and total liabilities excluding term debt, retirement benefit obligations and deferred taxes.

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

The Company reported an operating loss of \$6.3 million for the second quarter of 2020, down \$12.4 million from operating income of \$6.1 million reported for the first quarter of 2020. Reported results for the second quarter of 2020 included an \$8.2 million finished pulp and raw material inventory write-down at period end. After adjusting for this, the Company's operating income was \$1.9 million for the second quarter of 2020, up \$6.5 million from a similarly adjusted operating result in the previous quarter.

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

Compared to the second quarter of 2019, operating results decreased \$24.7 million primarily reflecting lower average NBSK pulp and BCTMP US-dollar pricing, and the aforementioned Northwood curtailment, which more than offset a 3 cent, or 3%, weaker Canadian Dollar in the current quarter.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	Q2 2020	Q1 2020	YTD 2020	Q2 2019	YTD 2019
Sales	\$ 205.8	\$ 232.5	\$ 438.3	\$ 270.9	\$ 526.0
Operating income before amortization ⁴	\$ 6.9	\$ 22.0	\$ 28.9	\$ 35.3	\$ 72.2
Operating income (loss)	\$ (12.0)	\$ 1.1	\$ (10.9)	\$ 12.9	\$ 28.4
Inventory write-downs (recovery)	\$ 8.2	\$ (10.7)	\$ (2.5)	\$ 13.4	\$ 13.7
Adjusted operating income (loss)	\$ (3.8)	\$ (9.6)	\$ (13.4)	\$ 26.3	\$ 42.1
Average NBSK pulp price delivered to China – US\$ ^{5,6}	\$ 572	\$ 573	\$ 573	\$ 630	\$ 665
Average NBSK pulp price delivered to China – Cdn\$ ^{5,6}	\$ 793	\$ 770	\$ 782	\$ 842	\$ 887
Production – pulp (000 mt)	260	298	558	300	574
Shipments – pulp (000 mt)	248	290	538	288	547

⁴ Amortization includes amortization of certain capitalized major maintenance costs.

⁵ Per tonne, NBSK pulp list net price delivered to China (as published by Resource Information Systems, Inc. ("RISI")); Average NBSK pulp net price delivered to China in Cdn\$ calculated as average NBSK pulp net price delivered to China – US\$ multiplied by the average exchange rate – Cdn\$ per US\$1.00 according to Bank of Canada monthly average rate for the period.

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

Markets

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

Global softwood pulp producer inventories at the end of June 2020 were significantly above the balanced range at 42⁷ days of supply, an increase of six days supply compared to March 2020 (market conditions are generally considered balanced when inventories are in the 27-34 days of supply range).

Sales

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

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

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

⁷ World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council ("PPPC").

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

Operations

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

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

Pulp unit manufacturing costs were slightly higher than the prior quarter as the effects of increased fibre costs and the impact of reduced production in the current quarter were largely offset by seasonally lower energy costs and decreased planned maintenance spending. Fibre costs were moderately higher than the previous period primarily due to a larger proportion of higher-cost whole log chips as a result of sawmill curtailments in the current quarter. Compared to the second quarter of 2019, pulp unit manufacturing costs were marginally lower, primarily due to a decline in fibre costs, principally reflecting lower market-based prices for sawmill residual chips (linked to falling Canadian dollar NBSK pulp unit sales realizations), which more than offset an increased proportion of higher-cost whole log chips in the current quarter.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars unless otherwise noted)	Q2	Q1	YTD	Q2	YTD
	2020	2020	2020	2019	2019
Sales	\$ 44.9	\$ 42.5	\$ 87.4	\$ 48.6	\$ 97.1
Operating income before amortization ⁸	\$ 8.1	\$ 7.5	\$ 15.6	\$ 9.0	\$ 15.8
Operating income	\$ 7.4	\$ 6.8	\$ 14.2	\$ 8.1	\$ 14.0
Production – paper (000 mt)	33	30	63	36	71
Shipments – paper (000 mt)	36	34	70	33	66

⁸ Amortization includes amortization of certain capitalized major maintenance costs.

Markets

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

Sales

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

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

Operations

Paper production for the second quarter of 2020 was 33,000 tonnes, up 3,000 tonnes from the previous quarter, largely due to improved productivity in the current quarter following several operational challenges in the first quarter of 2020. Compared to the second quarter of 2019, paper production was down 3,000 tonnes, primarily reflecting a reduced operating rate due to ongoing COVID-19 fibre supply challenges compared to the second quarter of 2019.

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

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)	Q2 2020	Q1 2020	YTD 2020	Q2 2019	YTD 2019
Corporate costs	\$ (1.7)	\$ (1.8)	\$ (3.5)	\$ (2.6)	\$ (5.9)
Finance expense, net	\$ (1.3)	\$ (1.6)	\$ (2.9)	\$ (1.9)	\$ (3.4)
Other income (expense), net	\$ 6.2	\$ 4.9	\$ 11.1	\$ (1.8)	\$ (3.7)

Corporate costs were \$1.7 million for the second quarter of 2020, broadly in line with the previous quarter and down \$0.9 million from the second quarter of 2019, largely reflecting reduced head office and general administrative expenses in the current period.

Net finance expense for the second quarter of 2020, at \$1.3 million, was down \$0.3 million and \$0.6 million from the first quarter of 2020 and the second quarter of 2019, respectively. The decrease in finance expense compared to the first quarter of 2020 principally related to a lower interest expense associated with the Company's improved cash position. Compared to the second quarter of 2019, the decrease in finance expense primarily reflected lower financing fees associated with letters of credit and lower employee future benefit interest costs.

Other income, net, of \$6.2 million in the second quarter of 2020 primarily reflected interim insurance proceeds of \$8.9 million, offset in part by unfavourable foreign exchange movements on US-dollar denominated working capital balances. The former is related to unscheduled downtime in 2018 at the Company's Northwood NBSK pulp mill to enable necessary tube replacements to its number five recovery boiler ("RB5"), rectifying damage discovered during routine preventative maintenance inspections. The aforementioned insurance proceeds will be re-invested in RB5 during the scheduled maintenance outage in September and October of 2020, as Management continues to assess and evaluate long-term recovery boiler solutions for Northwood.

Other Comprehensive Income (Loss)

In the second quarter of 2020, the Company recorded a loss of \$6.5 million (before tax) related to changes in the valuation of the Company's employee future benefit plans, largely reflecting a 0.7% decrease in the discount rate used to value the employee future benefit plans, partially offset by a return on plan assets greater than the discount rate. This compared to a gain of \$5.3 million (before tax) in the first quarter of 2020, largely reflecting a 0.7% increase in the discount rate used to value the employee future benefit plans, partially offset by a return on plan assets lower than the discount rate. In the second quarter of 2019, the Company recorded a gain of \$14.5 million (before tax), primarily reflecting a 50% reduction in Medical Services Plan ("MSP") premiums realized in the second quarter of 2019 following a change in legislation in British Columbia ("BC"), and, to a lesser extent, a return on assets greater than the discount rate.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)	Q2 2020	Q1 2020	YTD 2020	Q2 2019	YTD 2019
Increase (decrease) in cash and cash equivalents	\$ 38.0	\$ 12.0	\$ 50.0	\$ (0.4)	\$ (7.3)
Operating activities	\$ 61.9	\$ 39.5	\$ 101.4	\$ 52.3	\$ 52.9
Financing activities	\$ (11.8)	\$ (8.8)	\$ (20.6)	\$ (28.3)	\$ (10.3)
Investing activities	\$ (12.1)	\$ (18.7)	\$ (30.8)	\$ (24.4)	\$ (49.9)
Ratio of current assets to current liabilities			2.5 : 1		2.2 : 1
Net debt (cash) to capitalization ⁹			(1.1)%		0.0%
ROIC – Consolidated period-to-date	0.4%	0.9%	1.3%	2.4%	4.8%

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

Operating Activities

Cash generated from operating activities in the second quarter of 2020 was \$61.9 million, up \$22.4 million from the first quarter of 2020 and up \$9.6 million from the second quarter of 2019. The increase in operating cash flows compared to the first quarter of 2020 largely reflected a decrease in trade accounts receivable offset in part by income tax refunds in the previous quarter and lower cash earnings in the current period. Compared to the second quarter of 2019, the increase in operating cash flows primarily reflected favourable changes in non-cash working capital offset in part by reduced cash earnings quarter-over-quarter.

Financing Activities

Cash used for financing activities in the second quarter of 2020 was \$11.8 million compared to \$8.8 million in the first quarter of 2020 and \$28.3 million in the second quarter of 2019. Cash used for financing activities in the current quarter principally related to an \$11.0 million repayment of the Company's principal operating loan facility. Financing activities in the first quarter of 2020 principally related to a \$3.0 million repayment of the Company's principal operating loan facility and payment of a quarterly dividend of \$4.1 million (\$0.0625 per common share). Cash from financing activities in the second quarter of 2019 principally related to a \$23.0 million repayment of the Company's principal operating loan facility and payment of a quarterly dividend of \$4.1 million (\$0.0625 per common share).

Investing Activities

Cash used for investing activities of \$12.1 million in the current quarter reflected reduced capital spending, and was mainly comprised of the ongoing construction of a raw water treatment plant at the Company's Intercontinental NBSK pulp mill (scheduled to be completed by the end of 2020) as well as maintenance-of-business capital.

Liquidity and Financial Requirements

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

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

At June 30, 2020, the Company had net cash of \$6.0 million and available liquidity of \$153.1 million. Available liquidity improved by \$49.3 million during the current quarter.

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

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

Dividends

As a result of the ongoing challenging conditions and uncertainties caused by COVID-19, the Board of Directors determined that the quarterly dividend will remain suspended for the foreseeable future.

OUTLOOK

Pulp and Paper Markets

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

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

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

Bleached kraft paper markets are anticipated to be relatively stable in North America through the third quarter of 2020, with a steady projected demand for bleached kraft paper products that meet food grade specifications. Offshore bleached kraft paper markets are anticipated to soften slightly over the same period.

OUTSTANDING SHARES

At July 23, 2020 there were 65,233,559 common shares of the Company outstanding.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, pension and other employee future benefit plans and asset retirement obligations based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Company's financial condition.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2020, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2019 annual statutory reports, which are available on www.canfor.com or www.sedar.com.

Sales are primarily influenced by changes in market pulp prices, sales volumes and fluctuations in Canadian dollar exchange rates. Operating income, net income and operating income before amortization are primarily impacted by: sales revenue; freight costs; fluctuations of fibre, chemical and energy prices; level of spending and timing of maintenance downtime; and production curtailments. Net income is also impacted by fluctuations in Canadian dollar exchange rates, the revaluation to the period end rate of US-dollar denominated working capital balances and revaluation of outstanding derivative financial instruments.

Coronavirus (COVID-19)

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. COVID-19's impact on global markets has been significant and in response, CPPI announced a series of significant measures. The Company's Northwood pulp mill was curtailed for three weeks in the second quarter, with a four-week curtailment in July at the PG and Intercontinental pulp mills due to a shortage of economically viable fibre in the region caused by

COVID-19's impact on sawmill operating rates. In addition, reduced capital spending and cost containment measures continue to be in effect across the Company to help mitigate the impacts of the pandemic.

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

To help mitigate the effects of COVID-19, on March 27, 2020, the Canada Emergency Wage Subsidy ("CEWS") program was introduced by the Government of Canada, reimbursing eligible employers who have experienced the required reduction in revenue for a portion of salaries paid out to employees during the pandemic. As at June 30, 2020, the Company has recognized a receivable of \$2.8 million for claims under the program in the first half of 2020, recognized as an offset to wage expense.

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Sales and income (loss) (millions of Canadian dollars)								
Sales	\$ 250.7	\$ 275.6	\$ 247.5	\$ 216.9	\$ 319.5	\$ 304.0	\$ 289.7	\$ 328.5
Operating income (loss) before amortization	\$ 13.3	\$ 27.7	\$ 0.1	\$ (20.3)	\$ 41.7	\$ 40.4	\$ 36.1	\$ 80.7
Operating income (loss)	\$ (6.3)	\$ 6.1	\$ (23.5)	\$ (44.0)	\$ 18.4	\$ 18.1	\$ 15.6	\$ 60.5
Net income (loss)	\$ (1.1)	\$ 7.0	\$ (19.5)	\$ (32.4)	\$ 10.6	\$ 10.8	\$ 14.2	\$ 42.9
Per common share (Canadian dollars)								
Net income (loss) – basic and diluted	\$ (0.02)	\$ 0.11	\$ (0.30)	\$ (0.50)	\$ 0.16	\$ 0.17	\$ 0.21	\$ 0.66
Book value ¹⁰	\$ 8.57	\$ 8.66	\$ 8.56	\$ 8.92	\$ 9.47	\$ 9.21	\$ 9.14	\$ 11.22
Dividends declared	\$ -	\$ -	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 2.3125
Statistics								
Pulp shipments (000 mt)	248	290	267	213	288	259	231	262
Paper shipments (000 mt)	36	34	26	27	33	33	32	34
Average exchange rate – US\$/Cdn\$	\$ 0.722	\$ 0.744	\$ 0.758	\$ 0.757	\$ 0.748	\$ 0.752	\$ 0.758	\$ 0.765
Average NBSK pulp list price delivered to China (US\$) ¹¹	\$ 572	\$ 573	\$ 563	\$ 555	\$ 630	\$ 700	\$ 803	\$ 877

¹⁰ Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

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

Canfor Pulp Products Inc. Condensed Consolidated Balance Sheets

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

Commitments and Contingencies (Note 10)

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

APPROVED BY THE BOARD

"S.E. Bracken-Horrocks"

Director, S.E. Bracken-Horrocks

"C.A. Pinette"

Director, C.A. Pinette

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Income (Loss)

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

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Other Comprehensive Income (Loss)

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

Condensed Consolidated Statements of Changes in Equity

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

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

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

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

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

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

Three and six months ended June 30, 2020 and 2019
(millions of Canadian dollars unless otherwise noted, unaudited)

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Pulp Products Inc. ("CPPI") and its subsidiary entities, hereinafter referred to as "CPPI" or "the Company." At June 30, 2020 and July 23, 2020, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI.

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2019, available at www.canfor.com or www.sedar.com.

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

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

2. Inventories

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

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

3. Operating Loan and Term Debt

(a) Operating Loan

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

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

The facility has certain financial covenants including a covenant based on maximum debt to total capitalization of the Company. At June 30, 2020, the Company was fully in compliance with all covenants relating to its operating loan facility.

(b) Term Debt

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

4. Employee Future Benefits

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

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

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

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

5. Income Taxes

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

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

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

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

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

6. Earnings (Loss) per Share

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

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

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

7. Net Change in Non-Cash Working Capital

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

8. Segment Information

The Company has two reportable segments, pulp and paper, which operate as separate business units and represent separate product lines. Sales between the pulp and paper segments are accounted for at prices that approximate fair value. These include sales of slush pulp from the pulp segment to the paper segment. Information regarding the operations of each reportable segment is included in the following table:

(millions of Canadian dollars, unaudited)	Pulp	Paper	Unallocated	Elimination Adjustment	Consolidated
3 months ended June 30, 2020					
Sales from contracts with customers	\$ 205.8	\$ 44.9	\$ -	\$ -	\$ 250.7
Sales to other segments	21.3	-	-	(21.3)	-
Operating income (loss)	(12.0)	7.4	(1.7)	-	(6.3)
Amortization	18.9	0.7	-	-	19.6
Capital expenditures¹	11.6	0.4	0.2	-	12.2
3 months ended June 30, 2019					
Sales from contracts with customers	\$ 270.9	\$ 48.6	\$ -	\$ -	\$ 319.5
Sales to other segments	27.3	-	-	(27.3)	-
Operating income (loss)	12.9	8.1	(2.6)	-	18.4
Amortization	22.4	0.9	-	-	23.3
Capital expenditures ¹	22.4	1.6	0.4	-	24.4
6 months ended June 30, 2020					
Sales from contracts with customers	\$ 438.9	\$ 87.4	\$ -	\$ -	\$ 526.3
Sales to other segments	38.9	-	-	(38.9)	-
Operating income (loss)	(10.9)	14.2	(3.5)	-	(0.2)
Amortization	39.8	1.4	-	-	41.2
Capital expenditures¹	29.3	1.3	0.4	-	31.0
Identifiable assets	767.6	64.4	67.0	-	899.0
6 months ended June 30, 2019					
Sales from contracts with customers	\$ 526.0	\$ 97.1	\$ 0.4	\$ -	\$ 623.5
Sales to other segments	55.6	-	-	(55.6)	-
Operating income (loss)	28.4	14.0	(5.9)	-	36.5
Amortization	43.8	1.8	-	-	45.6
Capital expenditures ¹	46.4	2.7	0.8	-	49.9
Identifiable assets	853.8	69.7	13.4	-	936.9

¹Capital expenditures represent cash paid for capital assets during the periods and include capital expenditures that were partially financed by government grants.

Geographic information

CPPI's products are marketed worldwide, with sales made to customers in a number of different countries. The following table presents revenue based on geographical locations of CPPI's customers:

(millions of Canadian dollars, unaudited)	3 months ended June 30,				6 months ended June 30,			
	2020		2019		2020		2019	
Sales by location of customer								
Canada	8%	\$ 19.3	6%	\$ 20.4	8%	\$ 44.0	6%	\$ 40.0
Asia	57%	142.2	57%	181.2	56%	294.4	55%	342.7
United States	24%	61.1	26%	84.7	25%	129.0	28%	172.7
Europe	4%	9.8	5%	14.6	4%	20.7	5%	29.1
Other	7%	18.3	6%	18.6	7%	38.2	6%	39.0
	100%	\$ 250.7	100%	\$ 319.5	100%	\$ 526.3	100%	\$ 623.5

9. Related Party Transactions

For the six months ended June 30, 2020, the Company depended on Canfor to provide approximately 67% (six months ended June 30, 2019 - 69%) of its fibre supply as well as certain key business and administrative services. As a result of these relationships, the Company considers its operations to be dependent on its ongoing relationship with Canfor. The transactions with Canfor are consistent with the transactions described in the December 31, 2019 audited consolidated financial statements of CPPI and are based on agreed upon amounts between the parties.

Transactions and payables to Canfor include purchases of wood chips, logs, hog fuel and administrative services. These are summarized below:

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

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

10. Commitments and Contingencies

Insurance Proceeds

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

Coronavirus Outbreak

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

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

Canada Emergency Wage Subsidy

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

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