2021

QUARTER ONE

FINANCIAL STATEMENTS

CANFOR PULP PRODUCTS INC.

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at March 31, 2021**		As at December 31, 2020
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**5.2**	$	6.8
Accounts receivable - Trade		**81.5**		64.3
- Other		**7.8**		13.6
Income taxes receivable		**28.1**		26.0
Inventories (Note 2)		**206.6**		188.5
Prepaid expenses and other		**16.9**		18.6
Total current assets		**346.1**		317.8
Property, plant and equipment and intangible assets		**576.6**		594.5
Right-of-use assets		**1.7**		2.0
Other long-term assets		**6.2**		6.5
Total assets	**$**	**930.6**	$	920.8
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**144.2**	$	161.6
Operating loan (Note 3(a))		**15.0**		-
Current portion of lease obligations		**1.0**		1.0
Total current liabilities		**160.2**		162.6
Term debt (Note 3(b))		**50.0**		50.0
Retirement benefit obligations (Note 4)		**63.9**		70.4
Lease obligations		**1.3**		1.5
Other long-term provisions		**7.8**		8.7
Deferred income taxes, net		**101.7**		95.1
Total liabilities	**$**	**384.9**	$	388.3
EQUITY				
Share capital	**$**	**480.8**	$	480.8
Retained earnings		**64.9**		51.7
Total equity	**$**	**545.7**	$	532.5
Total liabilities and equity	**$**	**930.6**	$	920.8

Contingencies (Note 11)

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

(millions of Canadian dollars, except per share data, unaudited)	3 months ended March 31, **2021**	2020
Sales	**$ 262.4**	$ 275.6
Costs and expenses		
Manufacturing and product costs	**195.7**	204.1
Freight and other distribution costs	**34.5**	38.3
Amortization	**20.8**	21.6
Selling and administration costs	**6.5**	5.5
	257.5	269.5
Operating income	**4.9**	6.1
Finance expense, net	**(1.2)**	(1.6)
Other income, net (Note 10)	**7.7**	4.9
Net income before income taxes	**11.4**	9.4
Income tax expense (Note 5)	**(3.0)**	(2.4)
Net income	**$ 8.4**	$ 7.0
Net income per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 6)	**$ 0.13**	$ 0.11

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

(millions of Canadian dollars, unaudited)		3 months ended March 31, **2021**		2020
Net income	**$**	**8.4**	$	7.0
Other comprehensive income				
Items that will not be reclassified subsequently to net income:				
Defined benefit plan actuarial gains, net (Note 4)		**6.6**		5.3
Income tax expense on defined benefit plan actuarial gains, net (Note 5)		**(1.8)**		(1.4)
Other comprehensive income, net of tax		**4.8**		3.9
Total comprehensive income	**$**	**13.2**	$	10.9

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)		3 months ended March 31, **2021**		2020
Share capital				
Balance at beginning and end of period	**$**	**480.8**	$	480.8
Retained earnings				
Balance at beginning of period	**$**	**51.7**	$	77.5
Net income		**8.4**		7.0
Defined benefit plan actuarial gains, net of tax		**4.8**		3.9
Dividends declared		**-**		(4.1)
Balance at end of period	**$**	**64.9**	$	84.3
Total equity	**$**	**545.7**	$	565.1

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2021	3 months ended March 31, 2020
Cash generated from (used in):		
Operating activities		
Net income	**$ 8.4**	$ 7.0
Items not affecting cash:		
Amortization	**20.8**	21.6
Income tax expense (Note 5)	**3.0**	2.4
Employee future benefits expense	**0.8**	0.9
Finance expense, net	**1.2**	1.6
Other, net	**(0.3)**	0.7
Defined benefit plan contributions, net	**(1.1)**	(1.4)
Income taxes received (paid), net	**(0.3)**	29.3
	32.5	62.1
Net change in non-cash working capital (Note 7)	**(15.2)**	(22.6)
	17.3	39.5
Financing activities		
Payment of lease obligations	**(0.2)**	(0.3)
Operating loan drawings (repayments) (Note 3(a))	**15.0**	(3.0)
Finance expenses paid	**(0.7)**	(1.4)
Dividends paid	**-**	(4.1)
	14.1	(8.8)
Investing activities		
Additions to property, plant and equipment and intangible assets, net	**(33.0)**	(18.8)
Other, net	**-**	0.1
	(33.0)	(18.7)
Increase (decrease) in cash and cash equivalents*	**(1.6)**	12.0
Cash and cash equivalents at beginning of period*	**6.8**	6.0
Cash and cash equivalents at end of period*	**$ 5.2**	$ 18.0

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Pulp Products Inc. and its subsidiaries, hereinafter referred to as "CPPI" or "the Company." At March 31, 2021 and April 28, 2021, 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, 2020, 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 28, 2021.

Change in Accounting Policy

Effective January 1, 2021, the Company has adopted amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures,* and IFRS 16 *Leases, Interest Rate Benchmark Reform – Phase 2* ("Phase 2") as issued in August 2020. Phase 2 of the amendments required financial instruments measured using amortized cost to be adjusted to reflect changes to the effective interest rate. For the Company, the adoption of Phase 2 is applicable to its non-revolving term debt and its committed operating loan facility, both of which have yet to transition to an alternative benchmark interest rate at March 31, 2021. As a result, there was no impact to the Company's financial results upon adoption of Phase 2.

2. Inventories

(millions of Canadian dollars, unaudited)		**As at March 31, 2021**		As at December 31, 2020
Pulp	**$**	**78.7**	$	55.4
Paper		**14.9**		20.9
Wood chips and logs		**58.0**		57.2
Materials and supplies		**55.0**		55.0
	$	**206.6**	$	188.5

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended March 31, 2021, a $2.2 million inventory write-down recovery was recognized (three months ended March 31, 2020 – write-down recovery of $10.7 million), eliminating the inventory provision for finished pulp and raw materials at March 31, 2021 (December 31, 2020 – $2.2 million).

3. Operating Loan and Term Debt

(a) Available Operating Loan

(millions of Canadian dollars, unaudited)		**As at March 31, 2021**		As at December 31, 2020
Operating loan facility	**$**	**110.0**	$	110.0
Letters of credit		**(12.9)**		(12.9)
Operating loan facility drawn		**(15.0)**		-
Total available operating loan facility	**$**	**82.1**	$	97.1

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 maximum debt to total capitalization ratio. At March 31, 2021, 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 March 31, 2021, the Company was fully in compliance with all covenants relating to its term debt. The loan is repayable on September 30, 2022, with interest based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin.

4. Employee Future Benefits

For the three months ended March 31, 2021 and March 31, 2020, defined benefit plan actuarial gains of $6.6 million and $5.3 million (before tax), respectively, were recognized in other comprehensive income, both 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.

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, 2021	**3.2%**	**3.2%**
December 31, 2020	2.7%	2.7%
March 31, 2020	3.7%	3.7%
December 31, 2019	3.0%	3.0%

5. Income Taxes

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

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2021**	2020
Current	**$ 1.8**	$ (1.4)
Deferred	**(4.8)**	(1.0)
Income tax expense	**$ (3.0)**	$ (2.4)

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, **2021**	2020
Income tax expense at statutory rate of 27% (2020 – 27%)	**$ (3.1)**	$ (2.5)
Add: Entities with different income tax rates and other tax adjustments	**0.1**	0.1
Income tax expense	**$ (3.0)**	$ (2.4)

In addition to the amounts recorded to net income, a tax expense of $1.8 million was recorded to other comprehensive income in relation to actuarial gains, net, on the defined benefit plans for the three months ended March 31, 2021 (three months ended March 31, 2020 – expense of $1.4 million).

6. Earnings Per Common Share

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

	3 months ended March 31, **2021**	2020
Weighted average number of common shares	**65,233,559**	65,233,559

As at March 31, 2021 and April 28, 2021, there were 65,233,559 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8% (March 31, 2020 – 54.8%).

7. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)		3 months ended March 31, 2021		2020
Accounts receivable	**$**	**(11.4)**	$	(8.0)
Inventories		**(18.1)**		(5.4)
Prepaid expenses and other		**1.9**		(4.7)
Accounts payable and accrued liabilities		**12.4**		(4.5)
Net change in non-cash working capital	**$**	**(15.2)**	$	(22.6)

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.

(millions of Canadian dollars, unaudited)		Pulp		Paper		Unallocated		Elimination Adjustment		Consolidated
3 months ended March 31, 2021										
Sales from contracts with customers	**$**	**219.8**	**$**	**42.6**	**$**	**-**	**$**	**-**	**$**	**262.4**
Sales to other segments		**19.8**		**-**		**-**		**(19.8)**		**-**
Operating income (loss)		**3.7**		**4.2**		**(3.0)**		**-**		**4.9**
Amortization		**20.1**		**0.7**		**-**		**-**		**20.8**
Capital expenditures[1]		**32.5**		**-**		**0.5**		**-**		**33.0**
Identifiable assets		**830.2**		**73.8**		**26.6**		**-**		**930.6**
3 months ended March 31, 2020										
Sales from contracts with customers	$	233.1	$	42.5	$	-	$	-	$	275.6
Sales to other segments		17.6		-		-		(17.6)		-
Operating income (loss)		1.1		6.8		(1.8)		-		6.1
Amortization		20.9		0.7		-		-		21.6
Capital expenditures[1]		17.7		0.9		0.2		-		18.8
Identifiable assets		816.2		68.2		27.8		-		912.2

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

Geographic information

CPPI's products are marketed worldwide, with sales made to customers in a number of different countries. 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, 2021			3 months ended March 31, 2020		
Sales by location of customer						
Canada	**8%**	**$**	**21.4**	9%	$	24.6
Asia	**66%**		**174.4**	59%		162.9
United States	**19%**		**49.6**	25%		67.9
Europe	**4%**		**10.4**	4%		10.9
Other	**3%**		**6.6**	3%		9.3
	100%	**$**	**262.4**	100%	$	275.6

9. Related Party Transactions

For the three months ended March 31, 2021, the Company depended on Canfor to provide approximately 62% (three months ended March 31, 2020 – 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, 2020 audited consolidated financial statements of CPPI and are based on agreed-upon amounts between the parties which approximate fair value.

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

	3 months ended March 31,	
(millions of Canadian dollars, unaudited)	**2021**	2020
Transactions		
Purchase of wood chips and other	**$ 51.0**	$ 64.2

(millions of Canadian dollars, unaudited)	**As at March 31, 2021**	As at December 31, 2020
Balance Sheet		
Included in accounts payable and accrued liabilities	**$ 19.8**	$ 16.7

10. Other Income, Net

During the three months ended March 31, 2021, the Company received insurance proceeds of $8.3 million related to Northwood pulp mill's number five recovery boiler ("RB5") outage in 2018, included as a component of 'Other income, net' on the condensed consolidated statement of income.

11. Contingencies

On March 11, 2020, the World Health Organization declared the coronavirus ("COVID-19") outbreak a pandemic. Although there have been adverse impacts of COVID-19 on the Company in the first quarter of 2021, Management continues to closely monitor its effects, and should its duration, spread or intensity further develop, the supply chain, market pricing and customer demand could be affected, impacting the Company's operating plan, liquidity, cash flows, and the valuation of its long-lived assets.