



2021

QUARTER ONE

INTERIM REPORT

FOR THE THREE MONTHS ENDED MAR. 31, 2021

CANFOR PULP PRODUCTS INC.

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To Our Shareholders

Canfor Pulp Products Inc. ("The Company" or "CPPI") reported first quarter 2021 results:

Overview

- First quarter of 2021 reported operating income of \$4.9 million
- Net income of \$8.4 million, or \$0.13 per share
- Net debt of \$60 million and net debt to capitalization of 9.9% at March 31, 2021

Financial Results

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

(millions of Canadian dollars, except per share amounts)	Q1 2021	Q4 2020	Q1 2020
Sales	\$ 262.4	\$ 237.8	\$ 275.6
Reported operating income (loss) before amortization	\$ 25.7	\$ (6.2)	\$ 27.7
Reported operating income (loss)	\$ 4.9	\$ (28.3)	\$ 6.1
Adjusted operating income (loss) before amortization ¹	\$ 23.5	\$ (9.2)	\$ 17.0
Adjusted operating income (loss) ¹	\$ 2.7	\$ (31.3)	\$ (4.6)
Net income (loss)	\$ 8.4	\$ (10.2)	\$ 7.0
Net income (loss) per share, basic and diluted	\$ 0.13	\$ (0.16)	\$ 0.11

¹ Adjusted for inventory write-down recoveries (\$2.2 million recovery in Q1 2021; \$3.0 million recovery in Q4 2020; \$10.7 million recovery in Q1 2020).

The Company reported operating income of \$4.9 million for the first quarter of 2021, an improvement of \$33.2 million from the reported operating loss of \$28.3 million for the fourth quarter of 2020, reflecting improving global pulp market conditions, combined with a 25% increase in pulp production quarter-over-quarter.

During the first quarter of 2021, global pulp markets experienced a surge in US-dollar list prices in response to an uptick in demand, particularly from China, combined with ongoing global logistic constraints and supported by strong price increases on the Shanghai Futures Exchange. As a result, Northern Bleached Softwood Kraft ("NBSK") pulp list prices on orders from China saw sharp increases throughout the period, reaching a high of US\$973 per tonne in March to average US\$883 per tonne for the current quarter, up US\$246 per tonne, or 39%, from the previous quarter. Prices to North America also saw sharp increases, although not at the same levels as those in China, up US\$164 per tonne, or 14%, quarter-over-quarter to US\$1,302 per tonne (before discounts). Reflecting the lag between orders and shipments, the significant majority of these price gains will be realized in the second quarter.

NBSK pulp unit sales realizations reflected improved prices on shipments in the current period, which more than offset a 2 cent, or 3%, stronger Canadian dollar. Average Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") unit sales realizations were broadly in line with the previous quarter as more modest upward positive trends in BCTMP US-dollar pricing were largely offset by the stronger Canadian dollar.

Energy revenues increased in the current quarter reflecting a return to more normalized power generation levels combined with seasonally higher energy prices.

Pulp production was 292,000 tonnes for the current quarter, up 59,000 tonnes, or 25%, from the previous quarter, principally reflecting the benefit of increased operating days following the completion in mid-January of the Company's Northwood NBSK pulp mill's ("Northwood") recovery boiler number five ("RB5") capital-related downtime, offset in part by several operational issues experienced at the Company's Prince George NBSK pulp mill in the current period.

Pulp shipments were up 7,000 tonnes, or 3%, from the previous quarter, largely due to the aforementioned increase in pulp production quarter-over-quarter, offset in part by the replenishment of inventory levels significantly drawn down during the fourth quarter of 2020 due to the Northwood outage. Global transportation constraints also impacted shipment volumes through the current period.

Pulp unit manufacturing costs were moderately lower than the prior quarter as the benefit of increased production in the current quarter was offset in part by seasonally higher energy prices and, to a lesser extent, planned maintenance spend. Fibre costs were broadly in line with the previous period as higher market-based prices for sawmill residual chips offset seasonal pricing adjustments.

Operating income in the Company's paper segment was \$4.2 million, down \$0.6 million from the previous quarter as a modest uptick in US-dollar pricing and an increase in paper shipments were more than offset by the stronger Canadian dollar and higher paper unit manufacturing costs in the current quarter, resulting from increases in slush pulp costs (linked to higher Canadian dollar NBSK market pulp prices).

Global softwood kraft pulp markets are projected to remain well positioned through the second quarter of 2021, driven by both continued solid demand and tight supply arising from the current global supply chain challenges, as well as the traditional spring maintenance period. Reflecting this ongoing positive momentum, the Company announced increases to its NBSK pulp list prices to China and North America for April 2021 to US\$1,010 per tonne and US\$1,565 per tonne, respectively. High yield markets are anticipated to see continued improvement through the second quarter of 2021, largely driven by strong demand for board products, especially in Asia, tempered somewhat by available supply.

Results in the second quarter of 2021 are anticipated to reflect the record-high pricing as well as a scheduled maintenance outage at the Company's Intercontinental NBSK pulp mill, with a projected 14,000 tonnes of reduced NBSK pulp production, combined with higher associated maintenance costs and lower projected shipment volume.

Bleached kraft paper demand is currently anticipated to show continued strength through the second quarter of 2021 and stabilize through the balance of 2021.



Conrad A. Pinette
Chairman



Don B. Kayne
Chief Executive Officer

Canfor Pulp Products Inc.
First Quarter 2021
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the quarter ended March 31, 2021 relative to the quarters ended December 31, 2020 and March 31, 2020, and the financial position of the Company at March 31, 2021. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended, March 31, 2021 and 2020, as well as the 2020 annual MD&A and the 2020 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2020 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income (Loss) before Amortization which CPPI considers to be a relevant indicator for measuring trends in the Company's performance and its ability to generate funds to meet its debt service and capital expenditure requirements, and to pay dividends. Reference is also made to Adjusted Net Income (Loss) (calculated as Net Income (Loss) less specific items affecting comparability with prior periods) and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, CPPI's Operating Income (Loss) before Amortization, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income (Loss) before Amortization to Operating Income (Loss) and Adjusted Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in this MD&A. Throughout this discussion reference is made to the current quarter which refers to the results for the first quarter of 2021.

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at April 28, 2021.

Forward Looking Statements

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

FIRST QUARTER 2021 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except ratios)	Q1 2021	Q4 2020	Q1 2020
Operating income (loss) by segment:			
Pulp	\$ 3.7	\$ (30.2)	\$ 1.1
Paper	\$ 4.2	\$ 4.8	\$ 6.8
Unallocated	\$ (3.0)	\$ (2.9)	\$ (1.8)
Total operating income (loss)	\$ 4.9	\$ (28.3)	\$ 6.1
Add: Amortization ¹	\$ 20.8	\$ 22.1	\$ 21.6
Total operating income (loss) before amortization	\$ 25.7	\$ (6.2)	\$ 27.7
Add (deduct):			
Working capital movements	\$ (15.2)	\$ 4.0	\$ (22.6)
Defined benefit pension plan contributions, net	\$ (1.1)	\$ (0.6)	\$ (1.4)
Income taxes (paid) received, net	\$ (0.3)	\$ (0.1)	\$ 29.3
Other operating cash flows, net	\$ 8.2	\$ 13.9	\$ 6.5
Cash from operating activities	\$ 17.3	\$ 11.0	\$ 39.5
Add (deduct):			
Capital additions, net	\$ (33.0)	\$ (34.2)	\$ (18.8)
Dividends paid	\$ -	\$ -	\$ (4.1)
Other, net	\$ (0.9)	\$ (0.8)	\$ (1.6)
Change in cash / operating loans	\$ (16.6)	\$ (24.0)	\$ 15.0
ROIC – Consolidated period-to-date ²	1.7%	(1.5)%	0.9%
Average exchange rate (US\$ per C\$1.00)³	\$ 0.790	\$ 0.767	\$ 0.744

¹ Amortization includes amortization of certain capitalized major maintenance costs.

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

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

The Company reported operating income of \$4.9 million for the first quarter of 2021, an improvement of \$33.2 million from the reported operating loss of \$28.3 million for the fourth quarter of 2020, reflecting improving global pulp market conditions, combined with a 25% increase in pulp production quarter-over-quarter.

Compared to the first quarter of 2020, operating results decreased \$1.2 million as substantially higher average Northern Bleached Softwood Kraft ("NBSK") pulp US-dollar pricing was more than offset by a 5 cent, or 6%, stronger Canadian dollar, reduced pulp shipments as well as a decline in energy revenues and paper earnings quarter-over-quarter.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	Q1 2021	Q4 2020	Q1 2020
Sales	\$ 219.8	\$ 197.1	\$ 233.1
Operating income (loss) before amortization ⁴	\$ 23.8	\$ (8.9)	\$ 22.0
Operating income (loss)	\$ 3.7	\$ (30.2)	\$ 1.1
Inventory recovery	(2.2)	(3.0)	(10.7)
Adjusted operating income (loss)	1.5	(33.2)	(9.6)
Average NBSK pulp price delivered to China – US\$ ⁵	\$ 883	\$ 637	\$ 573
Average NBSK pulp price delivered to China – Cdn\$ ⁵	\$ 1,118	\$ 830	\$ 770
Production – pulp (000 mt)	292	233	298
Shipments – pulp (000 mt)	265	258	290

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.

Markets

Global pulp markets experienced a surge in US-dollar list prices in response to an uptick in demand, particularly from China, combined with ongoing global logistic constraints and supported by strong price increases on the Shanghai Futures Exchange. As a result, NBSK pulp list prices on orders from China saw sharp increases throughout the period, reaching a high of US\$973 per tonne in March, to average US\$883 per tonne for the current quarter up US\$246 per tonne, or 39%, from the previous quarter and up US\$310 per tonne, or 54%, compared to the first quarter of 2020. Prices to North America also saw sharp increases, although not at the same levels as those in China, up US\$164 per tonne, or 14%, from the previous quarter and up US\$175 per tonne, or 16%, compared to the same period in the prior year, to US\$1,302 per tonne (before discounts). Reflecting the lag between orders and shipments, the significant majority of these price gains will be realized in the second quarter of 2021.

Despite strong demand fundamentals, global softwood pulp producer inventories at the end of February 2021 were above the balanced range at 39 days⁶ of supply, up 4 days from December 2020, largely reflecting the aforementioned supply chain constraints. (Market conditions are generally considered balanced when inventories are in the 28-36 days of supply range).

Sales

The Company's pulp shipments for the first quarter of 2021 were 265,000 tonnes, up 7,000 tonnes, or 3%, from the previous quarter and down 25,000 tonnes, or 9%, from the first quarter of 2020. Increased shipments in the current quarter largely reflected improved pulp production, offset in part by the replenishment of inventory levels significantly drawn down during the fourth quarter of 2020 due to the Northwood NBSK pulp mill's ("Northwood") recovery boiler number five ("RBS") outage. Global transportation constraints also impacted shipment volumes through the current period. Compared to the first quarter of 2020, the decrease in pulp shipments primarily reflected the rebuild of pulp inventories in the current quarter.

The Company's NBSK pulp unit sales realizations saw a significant increase compared to both comparative periods, largely reflecting improved prices on shipments in the current period, which more than offset the stronger Canadian dollar. Average Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") unit sales realizations were broadly in line with the previous quarter and moderately down compared to the first quarter of 2020, as more modest upward positive trends in BCTMP US-dollar pricing were offset by the stronger Canadian dollar in both comparative periods.

⁶ 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 increased in the current quarter compared to the fourth quarter of 2020, largely reflecting a return to more normalized power generation levels combined with seasonally higher energy prices. Compared to the first quarter of 2020, energy revenues were down, principally due to a reduction in turbine operating days largely due to the continuation of Northwood's RB5 lower furnace replacement into mid-January 2021.

Operations

Pulp production was 292,000 tonnes for the first quarter of 2021, up 59,000 tonnes, or 25%, from the previous quarter, principally reflecting the benefit of increased operating days, following the completion in mid-January of Northwood's RB5 capital-related downtime (approximately 10,000 tonnes), offset in part by several operational issues experienced at the Company's Prince George NBSK ("PG") pulp mill in the current period. In the fourth quarter of 2020, pulp production was principally impacted by Northwood's scheduled maintenance outage in October (approximately 25,000 tonnes), as well as the extended outage on one production line at Northwood to enable the replacement of RB5's lower furnace (approximately 60,000 tonnes).

Compared to the first quarter of 2020, pulp production was down 6,000 tonnes, or 2%, primarily reflecting the completion of Northwood's recovery boiler downtime in the current period, offset in part, by increased production at the Company's Intercontinental NBSK pulp mill quarter-over-quarter.

Pulp unit manufacturing costs were moderately lower than the prior quarter as the benefit of increased production in the current quarter was offset in part by seasonally higher energy prices and, to a lesser extent, planned maintenance spend. Fibre costs were broadly in line with the previous period as higher market-based prices for sawmill residual chips in the current quarter offset seasonal pricing adjustments.

Pulp unit manufacturing costs were comparable to the first quarter of 2020, principally reflecting lower fibre costs offset by increased maintenance spend and, to a lesser extent, higher energy and chemical costs in the current quarter. Fibre costs were down compared to the first quarter of 2020, primarily driven by an increased proportion of lower-cost sawmill residual chips, mostly due to higher operating rates at Canfor's sawmills.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars, unless otherwise noted)	Q1 2021	Q4 2020	Q1 2020
Sales	\$ 42.6	\$ 40.7	\$ 42.5
Operating income before amortization ⁷	\$ 4.9	\$ 5.6	\$ 7.5
Operating income	\$ 4.2	\$ 4.8	\$ 6.8
Production – paper (000 mt)	30	36	30
Shipments – paper (000 mt)	37	35	34

⁷ Amortization includes amortization of certain capitalized major maintenance costs.

Markets

Global bleached kraft paper markets improved in all major regions through the first quarter of 2021, driven largely by solid demand for kraft paper products that meet food grade specifications.

Sales

The Company's paper shipments in the first quarter of 2021 were 37,000 tonnes, up 2,000 tonnes from the previous quarter, and up 3,000 tonnes from the first quarter of 2020, principally reflecting the timing of shipments around quarter-end compared to both comparative periods.

Paper unit sales realizations in the first quarter of 2021 were broadly in line with the previous quarter, as a modest uptick in US-dollar pricing in North America was offset by the 3% stronger Canadian dollar. Compared to the first quarter of 2020, paper unit sales realizations were moderately lower reflecting a 6% stronger Canadian dollar on relatively flat US-dollar prices.

Operations

Paper production for the first quarter of 2021 was 30,000 tonnes, down 6,000 tonnes from the previous quarter, largely due to reduced productivity, reflecting several operational challenges at the PG Pulp and Paper mill in the current quarter. Paper production was in line with the first quarter of 2020.

Higher paper unit manufacturing costs, compared to both the fourth quarter of 2020 and first quarter of 2020, principally reflected higher slush pulp costs associated with increased average NBSK pulp sales realizations in the current quarter.

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)	Q1 2021	Q4 2020	Q1 2020
Corporate costs	\$ (3.0)	\$ (2.9)	\$ (1.8)
Finance expense, net	\$ (1.2)	\$ (1.2)	\$ (1.6)
Other income, net	\$ 7.7	\$ 15.6	\$ 4.9

Corporate costs were \$2.8 million for the first quarter of 2021, broadly in line with the previous quarter and up \$1.0 million from the first quarter of 2020, largely reflecting increased head office and general administrative expenses in the current period.

Net finance expense for the first quarter of 2021 was \$1.2 million, comparable with the previous quarter and down \$0.4 million from the first quarter of 2020. The decrease in finance expense compared to the first quarter of 2020 principally related to a lower interest expense associated with the Company's term loan and lower financing fees associated with letters of credit.

Other income, net, of \$7.7 million in the first quarter of 2021 primarily reflected insurance proceeds of \$8.3 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 Northwood to enable necessary tube replacements to RB5, rectifying damage discovered during routine preventative maintenance inspections.

Other Comprehensive Income (Loss)

In the first quarter of 2021, the Company recorded a gain of \$6.6 million (before tax) related to changes in the valuation of the Company's employee future benefits plans, largely reflecting a 0.5% increase in the discount rate used to value the employee future benefit plans, driven by an increase in the yield on long-term Government of Canada bonds, partially offset by a lower than anticipated return on plan assets. This compared to a gain of \$6.4 million (before tax) in the fourth quarter of 2020, principally due to favourable actuarial experience adjustments and a higher than anticipated return on plan assets. In the first quarter of 2020, the Company recorded a gain of \$5.3 million (before tax), largely reflecting a 0.7% increase in the discount rates used to value the employee future benefit plans.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)	Q1 2021	Q4 2020	Q1 2020
Increase (decrease) in cash and cash equivalents	\$ (1.6)	\$ (24.0)	\$ 12.0
Operating activities	\$ 17.3	\$ 11.0	\$ 39.5
Financing activities	\$ 14.1	\$ (0.9)	\$ (8.8)
Investing activities	\$ (33.0)	\$ (34.1)	\$ (18.7)
Ratio of current assets to current liabilities	2.2 : 1	2.0 : 1	2.3 : 1
Net debt to capitalization ⁸	9.9%	7.5%	7.1%
ROIC – Consolidated period-to-date	1.7%	(1.5)%	0.9%

⁸ 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 cash plus total equity.

Operating Activities

Cash generated from operating activities in the first quarter of 2021 was \$17.3 million, up \$6.3 million from the fourth quarter of 2020 and down \$22.2 million from the first quarter of 2020. The increase in operating cash flows compared to the fourth quarter of 2020 largely reflected higher cash earnings in the current period, offset, in part, by increased accounts receivable and finished pulp inventory at the end of the current quarter. Compared to the first quarter of 2020, the decrease in operating cash flows primarily reflected income tax refunds received in the prior period, partially offset by favourable changes in non-cash working capital quarter-over-quarter.

Financing Activities

Cash generated from financing activities in the first quarter of 2021 was \$14.1 million compared to cash used of \$0.9 million in the fourth quarter of 2020 and cash used of \$8.8 million in the first quarter of 2020. Cash generated from financing activities in the current quarter principally related to a \$15.0 million draw down of the Company's principal operating loan facility to service working capital requirements. Cash used for 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).

Investing Activities

Cash used for investing activities of \$33.0 million in the current quarter was principally comprised of the completion of Northwood's RB5 capital upgrades, as well as maintenance-of-business capital.

Liquidity and Financial Requirements

At March 31, 2021, the Company had a \$110.0 million unsecured operating loan facility, with \$15.0 million drawn in the current quarter and \$12.9 million reserved for several standby letters of credit. At the end of the quarter, the Company had \$82.1 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.

As at March 31, 2021, the Company had net debt of \$59.8 million and available liquidity of \$87.3 million.

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.

OUTLOOK

Pulp and Paper Markets

Global softwood kraft pulp markets are projected to remain well positioned through the second quarter of 2021, driven by both continued solid demand and tight supply arising from the current global supply chain challenges, as well as the traditional spring maintenance period. Reflecting this ongoing positive momentum, the Company announced increases to its NBSK pulp list prices to China and North America for April 2021 to US\$1,010 per tonne and US\$1,565 per tonne, respectively. High yield markets are anticipated to see continued improvement through the second quarter of 2021, largely driven by strong demand for board products, especially in Asia, tempered somewhat by available supply.

Results in the second quarter of 2021 are anticipated to reflect the record-high pricing as well as a scheduled maintenance outage at the Company's Intercontinental NBSK pulp mill, with a projected 14,000 tonnes of reduced NBSK pulp production, combined with higher associated maintenance costs and lower projected shipment volume.

Bleached kraft paper demand is currently anticipated to show continued strength through the second quarter of 2021 and stabilize through the balance of 2021.

OUTSTANDING SHARES

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%.

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.

ADOPTION OF NEW ACCOUNTING STANDARDS

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 committed operating loan facility and its non-revolving term debt, 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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2021, 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 2020 annual statutory reports, which are available on www.canfor.com or www.sedar.com.

There have been adverse impacts of COVID-19 on the Company in the first quarter of 2021. Please see the Company's annual disclosures referenced above for further information.

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.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Sales and income (loss) (millions of Canadian dollars)								
Sales	\$ 262.4	\$ 237.8	\$ 226.4	\$ 250.7	\$ 275.6	\$ 247.5	\$ 216.9	\$ 319.5
Operating income (loss) before amortization	\$ 25.7	\$ (6.2)	\$ (8.7)	\$ 13.3	\$ 27.7	\$ 0.1	\$ (20.3)	\$ 41.7
Operating income (loss)	\$ 4.9	\$ (28.3)	\$ (27.6)	\$ (6.3)	\$ 6.1	\$ (23.5)	\$ (44.0)	\$ 18.4
Net income (loss)	\$ 8.4	\$ (10.2)	\$ (18.1)	\$ (1.1)	\$ 7.0	\$ (19.5)	\$ (32.4)	\$ 10.6
Per common share (Canadian dollars)								
Net income (loss) – basic and diluted	\$ 0.13	\$ (0.16)	\$ (0.28)	\$ (0.02)	\$ 0.11	\$ (0.30)	\$ (0.50)	\$ 0.16
Book value ⁹	\$ 8.37	\$ 8.16	\$ 8.25	\$ 8.57	\$ 8.66	\$ 8.56	\$ 8.92	\$ 9.47
Dividends declared	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 0.0625	\$ 0.0625	\$ 0.0625
Statistics								
Pulp shipments (000 mt)	265	258	249	248	290	267	213	288
Paper shipments (000 mt)	37	35	27	36	34	26	27	33
Average exchange rate – US\$/Cdn\$	\$ 0.790	\$ 0.767	\$ 0.751	\$ 0.722	\$ 0.744	\$ 0.758	\$ 0.757	\$ 0.748
Average NBSK pulp list price delivered to China (US\$) ¹⁰	\$ 883	\$ 637	\$ 572	\$ 572	\$ 573	\$ 563	\$ 555	\$ 630

⁹ 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.

¹⁰ Effective January 1, 2020, all RISI China market pricing has changed from "Delivered to China – Effective list price" to "Delivered to China – Net price" as distributed through Fastmarkets RISI.

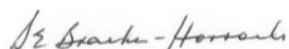
Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)	As at March 31, 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		
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



Director, S.E. Bracken-Horrocks



Director, C.A. Pinette

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Income

	3 months ended March 31,	
(millions of Canadian dollars, except per share data, unaudited)	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	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 unrepresented cheques.

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

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

Three months ended March 31, 2021 and 2020
(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. 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 CPP1 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 expenditures¹	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

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. 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,		3 months ended March 31,	
	2021		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:

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

(millions of Canadian dollars, unaudited)	As at March 31,	As at December 31,
	2021	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.