



2020

ANNUAL REPORT

CANFOR PULP PRODUCTS INC.

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MESSAGE TO SHAREHOLDERS

FROM THE CEO

While the start of a new decade typically brings new optimism, 2020 ushered in a very different reality. The COVID-19 pandemic and economic crisis altered almost every facet of how we lived and worked, in ways that we could not have imagined. The year also demonstrated that, in challenging times, Canfor Pulp is not only resilient, but also excels.

Early in the global pandemic, governments around the world deemed forest sector operations, including pulp and paper producers, an essential service. As a critical contributor to health, household and industrial products, our business stepped up, responding decisively and creating new COVID-19 protocols, policies and procedures to ensure the health and safety of our people and to keep the supply chain moving. Through commitment and careful actions, Canfor Pulp navigated uncertain conditions, operated safely and continued to deliver high quality products to our global customers.

We were steadfast in our priorities to keep our people safe, maintain our strong customer relationships and produce sustainable pulp and paper products from responsibly sourced, renewable resources.

For most of 2020, there was significant volatility in global pulp markets. The year started with a carry-over of market weakness, depressed pricing and elevated inventory levels. The onset of the pandemic brought an acceleration to the structural decline of printing and writing papers due to digitization, and new trends emerged from changing consumer habits. Solid pulp demand for production of critically needed personal protective equipment like medical-grade masks and hospital gowns, wet wipes for sanitizing, tissue and hygiene products, as well as an uptick on food grade kraft papers products, helped to offset market weakness.

The year also highlighted the interconnections within our sector. Major disruptions to fibre availability due to pandemic-driven sawmill curtailments in the BC Interior, particularly early on, had an adverse impact on fibre and manufacturing costs at Canfor Pulp. In response, we took significant operational downtime as well as scheduled maintenance downtime at our pulp mills in the second and third quarters. In the fourth quarter, we also made the decision to replace the lower furnace of our recovery boiler number five (RB5) at Northwood Pulp, which, together with completion of a new water treatment plant for our Intercontinental and Prince George pulp mills, were the year's significant capital investments.

To preserve a solid financial position, the Company undertook early and prudent cost conservation initiatives, a disciplined approach to cash management and materially reduced our capital spending. The Board of Directors also decided to suspend the quarterly dividend for the foreseeable future. We will continue to review it quarterly.

Despite many challenges, Canfor Pulp ended the year with a strong balance sheet, healthy inventory levels, and now, with the RB5 capital rebuild behind us and supply and demand in better balance, we are well positioned to capitalize on the upward momentum in pulp

prices, improving demand and the opportunity to continue to grow the specialty pulp segment.

Looking forward, Canfor Pulp is focused on operational excellence, organic growth and pursuing new opportunities in the burgeoning bioeconomy. With more countries banning the use of single-use plastics and increasing demand for renewable, low-carbon materials, we have a great opportunity to lead in the development of sustainable products that can replace fossil-fuel based products. We also plan to make investments in facility improvements, expand green innovation and continue to support the Arbios Biotech project to produce biofuels.

Advancing our sustainability culture to the next level includes development of a comprehensive sustainability strategy aligned with best-in-class environmental, social and governance (ESG) standards. We have always approached our business with a critical focus on sustainability and we are excited to significantly increase our focus on ESG reporting, along with setting goals and implementing action plans with meaningful targets that will provide a path to achieving the goals.

We continued to grow our business' digital capabilities. Investing in more industry-relevant, value-creating technology solutions will raise Canfor Pulp's competitive advantage.

People are our strength and we continue to make significant progress on our commitment to build a diverse workforce that represents the communities in which we live and work by 2030. Our work included undertaking employee inclusion and diversity training, expanding career development opportunities, and launching our Indigenous Talent Program to enhance services to Indigenous candidates interested in a career with Canfor Pulp.

I would like to conclude by expressing my deep appreciation to everyone who make our achievements possible. Amidst the uniquely difficult challenges of 2020, our employees' dedication, resourcefulness and unwavering focus were unmatched. The guidance and strong governance of our Board of Directors to strongly supported our strategy. And to our shareholders, thank you, for your continued interest, investment and confidence in Canfor Pulp.

While challenges remain, we are pleased with the increasing pulp prices we have seen in early 2021 and we are optimistic that Canfor Pulp is well positioned to help to advance the transition to a low-carbon economy.



A handwritten signature in black ink, appearing to read 'Don Kayne', written in a cursive style.

Don Kayne
Chief Executive Officer

2020 MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("Canfor Pulp", "CPPI" or "the Company") financial performance for the year ended December 31, 2020 relative to the year ended December 31, 2019, and the financial position of the Company at December 31, 2020. It should be read in conjunction with CPPI's Annual Information Form and its audited consolidated financial statements and accompanying notes for the years ended December 31, 2020 and 2019 (available at www.canfor.com). The financial information contained in this 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 repayment 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 – for the full calculation, see reconciliation included in the section "Overview of Consolidated Results – 2020 Compared to 2019") and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by 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 under IFRS 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.

Factors that could impact future operations are also discussed. These factors may be influenced by 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 other 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. Certain comparative amounts have been reclassified to conform to current presentation. The information in this report is as at February 24, 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.

COMPANY OVERVIEW

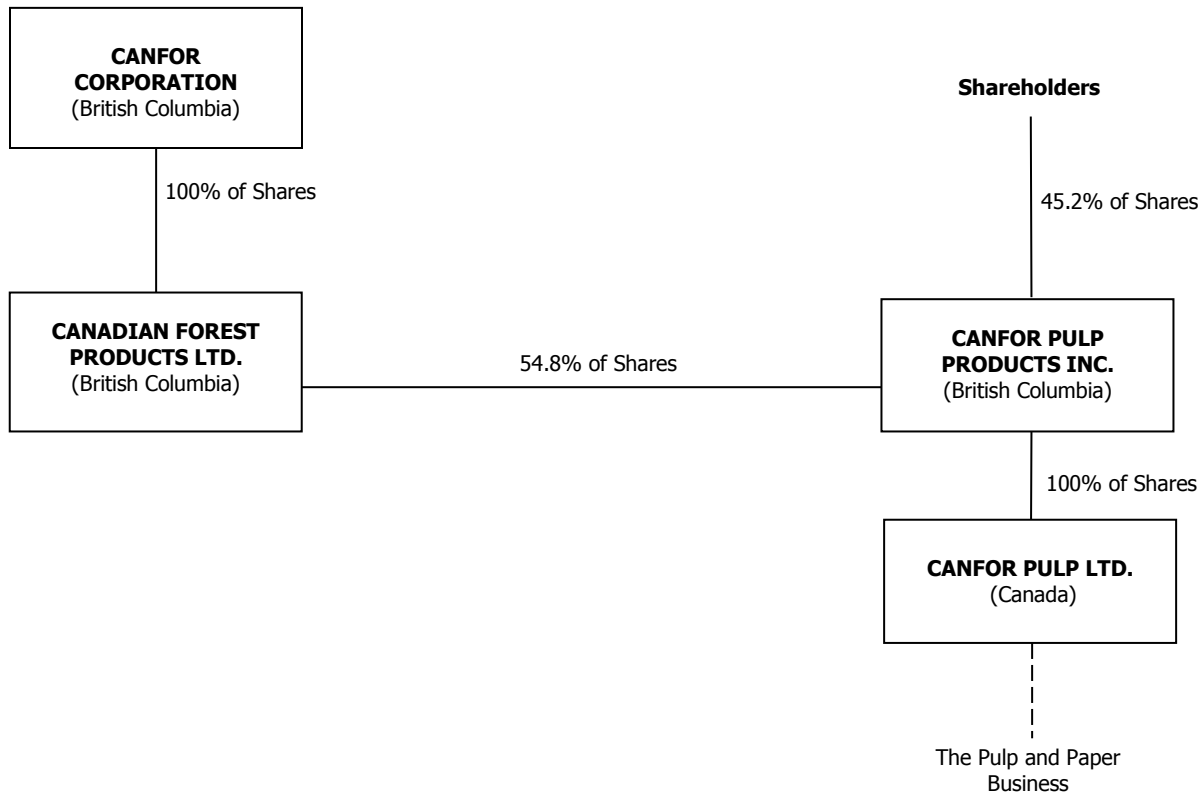
CPPI is a company incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The consolidated financial statements of the Company as at and for the year ended December 31, 2020 comprise the Company and its subsidiary entities. The Company's operations consist of two Northern Bleached Softwood Kraft ("NBSK") pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia ("BC"); a Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill located in Taylor, BC and a marketing group based in Vancouver, BC.

At December 31, 2020, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI, unchanged from December 31, 2019.

CPPI employed 1,278 people in its wholly owned subsidiaries and jointly owned operations as at December 31, 2020.

The following chart illustrates, on a simplified basis, the ownership structure of CPPI (collectively the Company) as at December 31, 2020.

Simplified Ownership Structure



Pulp

The Company owns and operates three NBSK pulp mills with an annual production capacity of approximately 1.1 million tonnes of northern softwood market kraft pulp, the significant majority of which is bleached to become NBSK pulp, and approximately 140,000 tonnes of kraft paper.

The Northwood pulp mill is a two-line pulp mill with an annual production capacity of approximately 600,000 tonnes of NBSK pulp, making it the largest NBSK pulp facility in North America. Northwood's pulp is used to make a variety of products including specialty products, premium tissue and printing and writing papers, and is primarily delivered to customers in North America and Asia.

The Intercontinental pulp mill is a single-line pulp mill with an annual production capacity of approximately 320,000 tonnes of NBSK pulp. Intercontinental's pulp is used to make substantially the same products as that of Northwood, and is delivered to North America, Asia and Europe.

The Prince George pulp and paper mill is an integrated two-line pulp and paper mill with an annual market pulp production capacity of approximately 150,000 tonnes. The Prince George pulp and paper mill supplies to pulp markets in North America, Asia and Europe, as well as to its internal paper making facilities.

The Company also owns and operates the Taylor pulp mill, which it purchased from Canfor in early 2015. This BCTMP facility has an annual production capacity of 230,000 tonnes, and supplies pulp markets in North America and Asia.

Paper

The Company's paper machine, located at the Prince George pulp and paper mill, has an annual production capacity of approximately 140,000 tonnes of kraft paper, including a wide range of high performance bleached and unbleached kraft and specialty papers. The paper mill supplies primarily North American, Asian and European markets.

Business Strategy

CPPI's overall business strategy is to be a pulp and paper industry leader with strong financial performance, accomplished through:

- Attaining world-class safety performance;
- Optimizing the value from its high-quality premium reinforced pulp and paper products, particularly in specialty end use applications;
- Attaining world-class supply chain performance and providing excellence in customer service;
- Preserving its cost-efficient operating position and securing sustainable economically competitive fibre;
- Contributing to the climate change solution through a wide range of innovative high-value carbon-rich sustainable products, and materially reducing its reliance on fossil fuels;
- Maintaining a strong financial position;
- Growing an enterprise-wide culture of innovation, diversity and engagement by attracting, retaining and developing our employees; and
- Capitalizing on accretive growth and diversification opportunities, particularly in the bioeconomy sector.

OVERVIEW OF 2020

2020 was a turbulent year for Canfor Pulp and its employees with the coronavirus outbreak ("COVID-19") taking a heavy toll on global pulp markets as well as supply channels. The Company responded decisively to an unprecedented number of challenges, moving quickly to adopt new safety protocols, take significant fibre-related production curtailments and defer scheduled major maintenance outages. The year also saw a major rebuild of the lower furnace of the number five recovery boiler ("RB5") at the Company's Northwood NBSK pulp mill ("Northwood") to ensure the safe and reliable operation of that boiler, which significantly reduced production volumes in the fourth quarter. On a positive note, the Company ended the year with a strong balance sheet and healthy inventory levels and, with the RB5 rebuild now completed, is well placed to capitalize on an increasingly positive market outlook for 2021.

The COVID-19 related disruptions and capital-related downtime weighed on Canfor Pulp's financial results for 2020, with the Company reporting an operating loss of \$56.1 million and a net loss of \$0.34 per share, compared to an operating loss of \$31.0 million and net loss of \$0.47 per share for the year ended December 31, 2019.

Global pulp market fundamentals were very challenging through most of 2020 as the direct and indirect effects of COVID-19 weighed on the pulp and paper industry. Following a modest rebound in Asian pulp markets early in the year, global pulp markets weakened early in the second quarter of 2020 reflecting the spread of COVID-19 globally, and remained depressed until the fourth quarter of 2020. The structural decline in the printing and writing segment experienced in prior years was accelerated with the onset of the pandemic, while solid demand for at-home tissue products helped to partially offset this weakness. Global pulp inventory levels remained well-elevated throughout most of 2020, with a peak of 46 days of supply mid-year.

Prices to China, the world's largest consumer of market pulp, stayed within a narrow range for most of 2020. For the 2020 year as a whole, NBSK pulp list prices to China averaged US\$588¹ per tonne, a decrease of US\$24 per tonne, or 4%, from 2019, while North American NBSK pulp list prices averaged US\$1,139¹ per tonne for 2020, down US\$100 per tonne, or 8% from 2019 (before taking account of customer discounts, which were broadly unchanged year-over-year). BCTMP prices were relatively stable throughout 2020, with US-dollar prices to China falling US\$3 per tonne, or 1%, year-over-year.

Operating losses in the pulp segment were \$70.4 million in 2020, compared to operating losses of \$43.9 million in the previous year, for the most part reflecting the aforementioned decline in US-dollar list prices, resulting in moderately lower average pulp unit sales realizations year-over-year. Results in 2020 were also notably impacted by phased curtailments at all of the Company's NBSK pulp mills in Prince George ("PG"), largely in response to the effect of COVID-19 on lumber sawmill operating rates in the BC Interior, particularly in April and May, which materially reduced residual fibre supply to the Company's facilities.

In addition, in mid-October the Company extended its fall maintenance outage on one production line at Northwood to enable the replacement of the lower furnace on RB5. This lower furnace capital rebuild was completed mid-January, as planned, with a total capital cost of approximately \$27.0 million and total reduction in NBSK pulp production of 70,000 tonnes (60,000 tonnes in the current year and a further 10,000 tonnes in January 2021). The RB5 lower furnace replacement, in conjunction with upper furnace upgrades completed in 2020, are projected to materially extend the useful life of RB5. In light of the assessments made by Management in 2020 with regards to Northwood's recovery boiler number one and RB5, the previously considered option of a new "super" recovery boiler ("RB6"), at an estimated cost of \$400 million, will no longer be required.

The combined impact of the aforementioned downtime taken in 2020 not only reduced the Company's pulp segment production and shipments, but also had an adverse impact on unit fibre costs, manufacturing costs and energy revenue in the current year.

The Company's paper business results improved somewhat in 2020, as a COVID-19 driven increase in demand for food grade paper products, particularly in North America, led to an up-tick in regional demand. Offshore market demand lagged North America, however, and global paper prices were relatively flat year-over-year. These factors were combined with lower slush pulp prices, largely driven by the continued weakness in NBSK pulp prices in the current year.

In April 2020, recognizing the ongoing difficult conditions and uncertainties caused by COVID-19, and in support of the Company's cash preservation efforts, the Board of Directors decided to suspend the quarterly dividend for the foreseeable future.

Despite the many challenges faced by Canfor Pulp in 2020, the Company maintained a solid balance sheet with low net debt to capitalization levels through the year, finishing 2020 with net debt of \$43.2 million and a net debt to total capitalization ratio of 7.5%.

A review of the more significant developments and results by operating segment in 2020 follows.

¹ Resource Information Systems, Inc.

Markets and Pricing

(i) Pulp – Pandemic-led volatility in global pulp fundamentals; relatively flat pricing in 2020

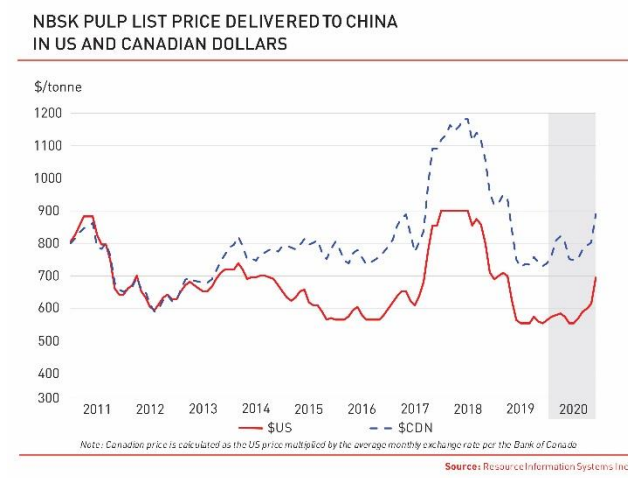
The onset of the global COVID-19 pandemic early in the year led to significant volatility in global pulp dynamics with an initial spike in global softwood pulp demand, as pulp markets reacted to shifting demand and a temporary surge in at-home tissue products. However, as the sustained and uncertain impacts of the pandemic continued, the printing and writing segment started to experience sharp declines mid-year, most notably in the at-office category. Towards the end of the year, however, against a backdrop of planned and unplanned downtime coupled with improved demand in China, supply and demand came more into balance, with the result that prices started to see some upward momentum.

As a result of the aforementioned factors, NBSK pulp list prices to China for the year averaged US\$588 per tonne, US\$24 per tonne, or 4%, lower than the 2019 average price; however, unlike a year earlier, prices ended 2020 at US\$695 per tonne, US\$140 per tonne higher than at the end of 2019. North American pulp prices experienced similar trends to Asia with list prices to that region also trading within a relatively narrow range, and showing a modest improvement from US\$1,115 per tonne in January to US\$1,155 per tonne in December (before taking account of customer discounts, which were broadly unchanged year-over-year).

Reflecting the modest improvement in market conditions in the fourth quarter of 2020, global softwood pulp producer inventories ended 2020 at 35² days of supply, two days lower than a year earlier, and closer to the balanced range of 27-34 days.

The following charts show the NBSK pulp list price movements in 2020, before taking account of customer discounts and rebates (Chart 1), global pulp shipments by destination (Chart 2), and the global pulp inventory levels (Chart 3).

Chart 1



² World 20 data is based on twenty producing countries representing 80% of the world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council ("PPPC").

Chart 2

**WORLD CHEMICAL MARKET PULP SHIPMENTS BY DESTINATION
% GROWTH - 12 MONTHS 2020 VS. 2019**

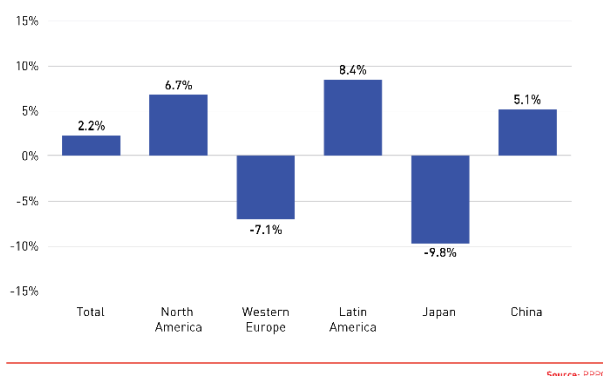
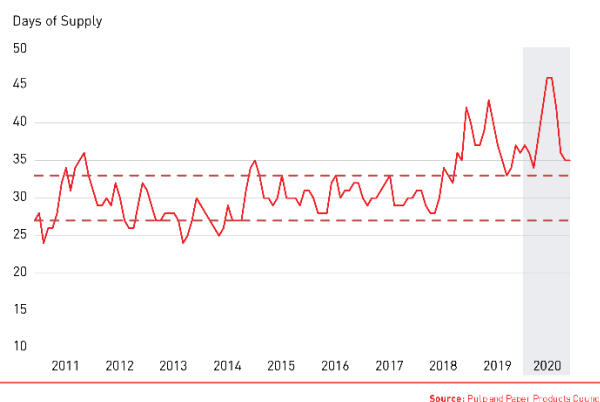


Chart 3

WORLD SOFTWOOD PULP INVENTORIES



(ii) Paper – North American kraft paper markets receive modest uplift from COVID-19; flat pricing year-over-year

Global kraft paper market softness and weak pricing experienced at the end of 2019 carried into the early part of 2020. In the second and third quarters of 2020, however, demand improved somewhat, particularly in North America, as consumer uncertainty associated with COVID-19 led to an up-tick in demand for food grade kraft paper products and home building supplies stored in kraft paper products. Offshore markets experienced similar trends, albeit lagged by several months to North America. As a result, overall global kraft paper pricing remained relatively flat year-over-year.

Fibre Supply

COVID-19 driven sawmill curtailments in 2020 leading to major disruptions to fibre availability

Following a challenging and constrained fibre supply environment in 2019, the Company's supply of sawmill residual chips once again came under significant pressure in 2020, particularly in the second quarter, this time mostly as a result of the onset of the global pandemic and extensive temporary sawmill curtailments in the BC Interior. The Company took a number of immediate actions in response to the sawmill downtime in BC, including the aforementioned phased curtailments at its PG facilities. Consequently, the Company's fibre mix included an increased

proportion of higher-cost whole log chips. Management continues to be significantly focused on optimizing fibre procurement, as well as maximizing fibre utilization and recovery.

Capital and Operations Review

COVID-19 resulting in significant downtime from major disruptions to fibre supply and operations; Northwood RB5 lower furnace rebuild completed; significant focus on costs and reliability in 2021

Total pulp and paper production in 2020 was down 21,000 tonnes, or 2%, compared to the prior year, largely reflecting the year-over-year impact of several scheduled and unplanned outages. Combined, COVID-19 related curtailments and Northwood’s RB5 lower furnace replacement and extended outage reduced pulp production by 133,000 tonnes. After being postponed from the spring to the fall of 2020 due to the onset of COVID-19, the Company completed scheduled outages in the current year at its Northwood and Taylor BCTMP (“Taylor”) mills which further reduced pulp production by 55,000 tonnes. Despite the ongoing COVID-19 disruption and BCTMP market weakness, the Company’s Taylor mill ran well through the current year, setting a new annual production record in 2020. In 2019, pulp production was most notably impacted by phased market and fibre-related curtailments at all of the Company’s pulp and paper facilities, which reduced pulp production by 140,000 tonnes, as well as scheduled outages at the Company’s Intercontinental, PG and Taylor pulp mills (approximately 25,000 tonnes).

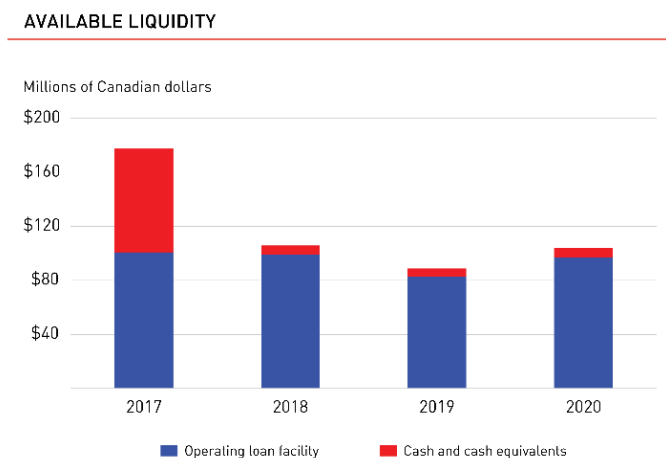
In light of the challenging market and operating conditions experienced in 2019, in early 2020 Management commenced a \$40 million cost reduction initiative aimed at reducing unit manufacturing costs, through improving reliability, reducing overhead cost and improving fibre utilization. With the various disruptions and uncertainties brought on by COVID-19, the Company’s efforts on several fronts were delayed, but significant progress was achieved by the Taylor mill, which lowered its annual run-rate conversion costs by approximately 20%. With the Company having much healthier fibre inventory levels at the beginning of 2021, a key focus of the Company’s kraft pulp mills this year will be improving operational reliability and closely managing its manufacturing and fibre costs.

Capital spending in 2020 totaled \$73.3 million, a decrease of \$29.7 million from the prior year, principally due to COVID-19 measures implemented at the onset of the pandemic to defer planned projects and suspend, where possible, in-progress initiatives. Capital spend in 2020 primarily comprised the completion of the construction of a new water treatment plant servicing the Company’s PG and Intercontinental pulp mills, as well as upper furnace upgrades and the lower furnace replacement at Northwood’s RB5.

Balance Sheet and Liquidity

As previously mentioned, notwithstanding the direct and indirect impacts and uncertainties brought on by the pandemic, the Company maintained its strong balance sheet position in 2020, finishing the year with net debt of \$43.2 million, available liquidity of \$103.9 million (Chart 4) and a net debt to total capitalization ratio of 7.5%. The Company’s cash earnings included eligible subsidies under the federal government’s Canada Emergency Wage Subsidy program, as well as a reduction in non-cash working capital, in part reflecting the Company’s continued focus on inventory management. The Company’s cost conservation initiatives, disciplined approach to cash management and materially reduced capital spending throughout 2020, further supported efforts to preserve its solid financial position.

Chart 4



Environmental, Social and Governance (“ESG”) Reporting

One of Canfor Pulp’s primary objectives is to be the leading global supplier of sustainable pulp and paper products. As a company that uses a renewable resource to produce sustainable products, it is part of the climate change solution and the circular economy. The Company is well positioned to play a key role in the shift to a circular, sustainable global economy and is committed to this transition for the benefit of the environment and the Company’s communities, partners and people.

As part of this leading role, the Company is committed to providing comprehensive and transparent reporting of sustainability practices, goals and metrics. As the best-in-class standards of sustainability goals and reporting continue to evolve, the Company is regularly reassessing its reporting processes and revisiting its corporate strategy. The Company continues to enhance sustainability efforts by refining its carbon policy and reduction targets, identifying key performance indicators to track its journey and by working in partnership with Indigenous Nations and key stakeholders. In Canfor Pulp’s 2020 sustainability reporting, the Company will continue its evolution by providing more transparent information on ESG-related matters.

OVERVIEW OF CONSOLIDATED RESULTS – 2020 COMPARED TO 2019

Selected Financial Information and Statistics

(millions of Canadian dollars, except for per share amounts)	2020	2019
Sales	\$ 990.5	\$ 1,087.9
Operating income before amortization ³	\$ 26.1	\$ 61.9
Operating loss	\$ (56.1)	\$ (31.0)
Adjusted operating income before amortization ^{3,4}	\$ 17.6	\$ 72.6
Adjusted operating loss ⁴	\$ (64.6)	\$ (20.3)
Net loss	\$ (22.4)	\$ (30.5)
Net loss per share, basic and diluted	\$ (0.34)	\$ (0.47)
ROIC – Consolidated ⁵	(3.2)%	(4.0)%
Average exchange rate (US\$ per Cdn\$1.00) ⁶	\$ 0.746	\$ 0.754

³ Amortization includes amortization of certain capitalized major maintenance costs.

⁴ Adjusted for inventory write-downs and recoveries (\$8.5 million net recovery in 2020; \$10.7 million net write-down in 2019).

⁵ 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.

⁶ Source – Bank of Canada (monthly average rate for the period).

Selected Cash Flow Information

(millions of Canadian dollars)	2020	2019
Operating income (loss) by segment:		
Pulp	\$ (70.4)	\$ (43.9)
Paper	\$ 24.0	\$ 22.9
Unallocated	\$ (9.7)	\$ (10.0)
Total operating loss	\$ (56.1)	\$ (31.0)
Add: Amortization ⁷	\$ 82.2	\$ 92.9
Total operating income before amortization	\$ 26.1	\$ 61.9
Add (deduct):		
Working capital movements	\$ 11.8	\$ 7.7
Defined benefit plan contributions, net	\$ (3.3)	\$ (5.4)
Income taxes received (paid), net	\$ 29.0	\$ (4.6)
Other operating cash flows, net	\$ 32.4	\$ (0.2)
Cash from operating activities	\$ 96.0	\$ 59.4
Add (deduct):		
Capital additions, net	\$ (73.3)	\$ (103.0)
Dividends paid	\$ (4.1)	\$ (16.4)
Proceeds from term debt	\$ -	\$ 50.0
Other, net	\$ (3.8)	\$ (4.9)
Change in cash / operating loans	\$ 14.8	\$ (14.9)

⁷ Amortization includes amortization of certain capitalized major maintenance costs.

OPERATING RESULTS BY BUSINESS SEGMENT – 2020 COMPARED TO 2019

The following discussion of CPPI's operating results relates to the operating segments and the non-segmented items as per the Segment Information note in the Company's consolidated financial statements.

CPPI's operations include the Pulp and Paper segments.

Pulp

Selected Financial Information and Statistics – Pulp

Summarized results for the Pulp segment for 2020 and 2019 are as follows:

(millions of Canadian dollars, unless otherwise noted)	2020	2019
Sales	\$ 827.9	\$ 918.9
Operating income before amortization ⁸	\$ 8.8	\$ 45.4
Operating loss	\$ (70.4)	\$ (43.9)
Inventory write-downs (recovery)	\$ (8.5)	\$ 10.7
Adjusted operating loss	\$ (78.9)	\$ (33.2)
Capital expenditures	\$ 71.3	\$ 96.4
Average NBSK pulp price delivered to China – US\$ ^{9,10}	\$ 588	\$ 612
Average NBSK pulp price delivered to China – Cdn\$ ^{9,10}	\$ 789	\$ 812
Production – pulp (000 mt)	1,018	1,035
Shipments – pulp (000 mt)	1,045	1,027

⁸ Amortization includes amortization of certain capitalized major maintenance costs.

⁹ 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.

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.

Markets

As mentioned, global pulp market fundamentals were very challenging through most of 2020 as the direct and indirect effects of COVID-19 weighed on the pulp and paper industry. Following a modest rebound in Asian pulp markets early in the year, global pulp markets weakened early in the second quarter of 2020 reflecting the spread of COVID-19 globally, and remained depressed until the fourth quarter of 2020. The structural decline in the printing and writing segment experienced in prior years was accelerated with the onset of the pandemic, while solid demand for at-home tissue products helped to partially offset this weakness.

NBSK pulp list prices to China for the year averaged US\$588 per tonne, US\$24 per tonne, or 4%, lower than the 2019 average price; however, unlike a year earlier, prices ended 2020 at US\$695 per tonne, US\$140 per tonne higher than at the end of 2019. North American pulp prices experienced similar trends to Asia with list prices to that region also trading within a relatively narrow range, and showing a modest improvement from US\$1,115 per tonne in January to US\$1,155 per tonne in December (before taking account of customer discounts, which were broadly unchanged year-over-year).

Reflecting the modest improvement in market conditions in the fourth quarter of 2020, global softwood pulp producer inventories ended 2020 at 35 days of supply, two days lower than a year earlier, and closer to the balanced range of 27-34 days.

Sales

The Company's pulp shipments in 2020 were 1.05 million tonnes, up 18,000 tonnes, or 2%, from 2019, as a drawdown in pulp inventory at the end of 2020, more than offset a 2% decrease in pulp production.

As mentioned, for the 2020 year as a whole, NBSK pulp list prices to China and North America were down 4% and 8%, respectively year-over-year (before discounts, which were largely unchanged). Average NBSK pulp unit sales realizations were significantly lower in 2020 largely reflecting the lower list prices and, to a lesser extent, a lower-value regional sales mix, which outweighed the benefit of the 1 cent, or 1%, weaker Canadian dollar. Average BCTMP unit sales realizations were down slightly in 2020 as a gradual improvement in BCTMP US-dollar prices through the first half of the year was more than offset by a sharp decline in pricing through most of the second half of 2020.

Energy revenues in 2020 were broadly in line with the prior year as turbine operating days and energy generation were comparable year-over-year.

Operations

Pulp production in 2020, at 1.02 million tonnes, was broadly in line with that produced in 2019, largely reflecting the year-over-year impact of several scheduled and unplanned outages. Combined, COVID-19 related curtailments and Northwood's RB5 lower furnace replacement and extended outage reduced pulp production by 133,000 tonnes. After being postponed from the spring to the fall of 2020 due to the onset of COVID-19, the Company completed scheduled outages in the current year at its Northwood and Taylor mills which further reduced pulp production by 55,000 tonnes. Despite the ongoing COVID-19 disruption and BCTMP market weakness, the Company's Taylor mill ran well through the current year, setting a new annual production record in 2020. In 2019, pulp production was most notably impacted by phased market and fibre-related curtailments at all of the Company's pulp facilities, which reduced pulp production by 140,000 tonnes, as well as scheduled outages at the Company's Intercontinental, PG and Taylor pulp mills (approximately 25,000 tonnes).

Pulp unit manufacturing costs moderately improved in 2020 compared to the prior year, principally due to modestly lower fibre costs and a slight decline in pulp unit conversion costs associated with a reduction in maintenance spend during the aforementioned curtailments in the current year. The decrease in fibre costs compared to the prior year primarily reflected the lower market-based prices for sawmill residual chips (linked to lower Canadian NBSK pulp prices), offset in part by an increased proportion of higher-cost whole log chips, particularly during the second and third quarters of 2020.

Paper

Selected Financial Information and Statistics – Paper

Summarized results for the Paper segment for 2020 and 2019 are as follows:

(millions of Canadian dollars, unless otherwise noted)	2020	2019
Sales	\$ 162.6	\$ 168.4
Operating income before amortization ¹¹	\$ 26.9	\$ 26.4
Operating income	\$ 24.0	\$ 22.9
Capital expenditures	\$ 1.4	\$ 5.1
Production – paper (000 mt)	123	127
Shipments – paper (000 mt)	131	119

¹¹ Amortization includes amortization of certain capitalized major maintenance costs.

Markets

As mentioned, global kraft paper market softness and weak pricing experienced at the end of 2019 carried into the early part of 2020. In the second and third quarters of 2020, however, demand improved somewhat, particularly in North America, as consumer uncertainty associated with COVID-19 led to an up-tick in demand for food grade kraft paper products and home building supplies stored in kraft paper products. Offshore markets experienced similar trends, albeit lagged by several months to North America. As a result, overall global kraft paper pricing remained relatively flat year-over-year.

Sales

The Company's paper shipments in 2020, at 131,000 tonnes, were up 12,000 tonnes from 2019, primarily reflecting a drawdown of paper inventory at the end of the current year. Paper unit sales realizations for 2020 were significantly lower than 2019, as the aforementioned COVID-19 related modest up-tick in North American kraft paper demand and US-dollar pricing in the second and third quarters of 2020, were more than outweighed by the weak global kraft paper markets and pricing through the first quarter of 2020, and, to a lesser extent, a change in regional sales mix year-over-year.

Operations

Paper production in 2020 was 123,000 tonnes, down 4,000 tonnes, from 2019, principally as a result of the year-over-year impact of fibre-related curtailments. Lower paper unit manufacturing costs in 2020 were primarily due to a significant decrease in slush pulp costs (linked to lower Canadian dollar NBSK market pulp prices), offset in part, by a slight increase in paper unit conversion costs, largely related to lower production levels in 2020.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)	2020	2019
Corporate costs	\$ (9.7)	\$ (10.0)
Finance expense, net	\$ (5.2)	\$ (6.6)
Other income (expense), net	\$ 30.7	\$ (4.0)

Corporate Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were \$9.7 million in 2020, down slightly from the prior year.

Finance Expense, Net

Net finance expense for 2020 was \$5.2 million, down \$1.4 million from 2019. The decrease principally reflected lower financing fees associated with the Company's letters of credit and reduced employee future benefit interest costs, offset in part by higher interest expense associated with the Company's non-revolving term loan entered into on September 30, 2019.

Other Income (Expense), Net

Other income, net, of \$30.7 million for 2020 primarily reflected insurance proceeds of \$32.8 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.

Income Tax Recovery

The Company recorded an income tax recovery of \$8.2 million in 2020 with an overall effective tax rate of 27%.

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

(millions of Canadian dollars)	2020	2019
Net loss before income taxes	\$ (30.6)	\$ (41.6)
Income tax recovery at statutory rate of 27% (2019 – 27%)	\$ 8.3	\$ 11.2
Add (deduct):		
Entities with different income tax rates and other tax adjustments	(0.1)	-
Permanent difference from capital gains and other non-deductible items	-	(0.1)
Income tax recovery	\$ 8.2	\$ 11.1

In addition to the amounts recorded in net loss, a tax expense of \$0.3 million was recorded to other comprehensive income in relation to actuarial gains, net, on the defined benefit plans in 2020 (December 31, 2019 – expense of \$3.3 million).

Other Comprehensive Income

CPPI measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Any actuarial gains or losses which arise are recognized immediately by means of a credit or an expense through Other Comprehensive Income.

For 2020, a gain of \$1.0 million (before tax) was recorded in Other Comprehensive Income, with actuarial gains in the Company's defined benefit pension plans and other non-pension post-employment benefits. The gains principally reflect favourable actuarial experience adjustments in the defined benefit pension plan and a higher than anticipated return on plan assets, offset in part by a 0.3% reduction in the discount rate in the current year.

For 2019, a gain of \$12.2 million (before tax) was recorded in Other Comprehensive Income, as losses on the Company's defined benefit pension plans were more than offset by gains on other non-pension post-employment benefits. Gains on the Company's non-pension post-employment benefits primarily related to a 50% reduction in Medical Services Plan ("MSP") premiums following a change in legislation in BC. The losses associated with the defined benefit pension plans principally reflected unfavourable actuarial experience adjustments and a 0.6% reduction in the discount rate in the current year, offset in part by a higher than anticipated return on plan assets.

In 2019 and 2020, no buy-in annuities were purchased by the Company. As at December 31, 2020, the plan holds \$81.3 million of buy-in annuities purchased prior to 2019. Future cash flows from the annuities will match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations.

After taking into account the impact of annuities, 45% of the change to the defined benefit pension plans is fully hedged against changes in discount rates and longevity risk (potential increases in life expectancy of plan members) through buy-in annuities, and a further 23% is partially offset through the plan's investment in debt securities.

For more information, see the "Employee Future Benefits" part of the "Critical Accounting Estimates" section later in this report.

SUMMARY OF FINANCIAL POSITION

The following table summarizes CPPI's financial position as at December 31, 2020 and 2019:

(millions of Canadian dollars, except for ratios)	2020	2019
Cash and cash equivalents	\$ 6.8	\$ 6.0
Operating working capital	148.4	168.1
Net working capital	155.2	174.1
Property, plant and equipment and intangible assets	594.5	580.8
Other long-term assets	8.5	8.7
Net assets	\$ 758.2	\$ 763.6
Term debt	50.0	50.0
Long-term lease obligations	1.5	1.9
Retirement benefit obligations	70.4	68.6
Other long-term provisions	8.7	7.1
Deferred income taxes, net	95.1	77.7
Total equity	532.5	558.3
	\$ 758.2	\$ 763.6
Ratio of current assets to current liabilities	2.0 : 1	2.1 : 1
Net debt to total capitalization	7.5%	9.4%

Reflecting 2020's market conditions, operating rates, as well as the Company's management of working capital, the ratio of current assets to current liabilities at the end of 2020 was 2.0:1, compared to 2.1:1 at the end of 2019. See further discussion in "Changes in Financial Position" section.

The Company's net debt to capitalization was 7.5% at December 31, 2020 (December 31, 2019: 9.4%), primarily reflecting a reduction in the balance drawn on the Company's operating loan facility.

CHANGES IN FINANCIAL POSITION

At the end of 2020, CPPI had \$6.8 million of cash and cash equivalents.

(millions of Canadian dollars)	2020	2019
Increase (decrease) in cash and cash equivalents	\$ 0.8	\$ (0.9)
Operating activities	\$ 96.0	\$ 59.4
Financing activities	\$ (22.4)	\$ 42.5
Investing activities	\$ (72.8)	\$ (102.8)

The changes in the components of these cash flows during 2020 are discussed in the following sections.

Operating Activities

For the 2020 year, CPPI generated cash from operating activities of \$96.0 million, up \$36.6 million from cash generated of \$59.4 million in the previous year. The improvement in operating cash flows was principally due to the receipt of income tax refunds in the current year combined with an increase in accounts payable and accrued liabilities (timing-related) and drawdown of finished pulp and paper inventory at the end of 2020, offset in part by a build in wood chip and log inventories.

Financing Activities

In 2020, cash used by financing activities was \$22.4 million, compared to cash generated of \$42.5 million in the prior year. Financing activities in 2020 principally related to a \$14.0 million repayment of the Company's principal operating loan facility as well as a quarterly dividend payment of \$4.1 million (reflecting a dividend of \$0.0625 per common share paid in the first quarter of 2020). Financing activities in 2019 comprised the receipt of a \$50.0 million term loan and \$14.0 million draw-down of the operating loan facility, partially offset by quarterly dividend payments totaling \$16.4 million (reflecting a dividend of \$0.0625 per common share in each quarter).

Investing Activities

Net cash used for investing activities in 2020 was \$72.8 million, compared to \$102.8 million used in 2019. Capital expenditures of \$73.3 million in 2020 principally comprised the completion of the construction of a new water treatment plant servicing the Company's PG and Intercontinental pulp mills, as well as upper furnace upgrades and the lower furnace replacement at Northwood's RB5.

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loan and Term Debt

At December 31, 2020, the Company had a \$110.0 million unsecured operating loan facility which was unused, except for \$12.9 million reserved for several standby letters of credit, leaving \$97.1 million available and undrawn on its operating loan facility at the end of the year.

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. On September 30, 2019, the maturity date of the Company's operating loan facility was extended from April 6, 2022 to April 6, 2023.

On September 30, 2019, the Company entered into a new non-revolving term loan for \$50.0 million. 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. The term loan covenants are consistent with the Company's existing operating loan facility.

Debt Covenants

CPPI has certain financial covenants on its debt obligations that stipulate a maximum debt to total capitalization ratio. The debt to total capitalization is calculated by dividing total debt by shareholders' equity plus total debt.

In circumstances when debt to total capitalization exceeds a threshold, CPPI is subject to an interest coverage ratio that requires a minimum amount of earnings before interest, taxes, depreciation and amortization relative to net interest expense. CPPI is not currently subject to this test.

Provisions contained in CPPI's long-term borrowing agreements also limit the amount of indebtedness that the Company may incur and the amount of dividends it may pay on its common shares. The amount of dividends the Company is permitted to pay under its long-term borrowing agreements is determined by reference to consolidated net earnings less certain restricted payments.

Management reviews results and forecasts to monitor the Company's compliance with these covenant requirements. CPPI was fully in compliance with all its debt covenants for the year ended December 31, 2020, and expects to remain so for the foreseeable future.

Normal Course Issuer Bid

On March 6, 2020, the Company's normal course issuer bid expired and was not renewed. The Company did not purchase any common shares in 2020 (December 31, 2019 – 17,200 common shares purchased at an average price of \$10.67 per common share).

As at December 31, 2020 and February 24, 2021 there were 65,233,559 common shares of the Company outstanding, and Canfor's ownership interest in CPPI was 54.8% (December 31, 2019 – 54.8%).

2021 Projected Capital Spending and Debt Repayments

Based on its current outlook, the Company anticipates that it will invest approximately \$70.0 million in capital projects in 2021 (excluding costs related to scheduled maintenance outages), with a primary focus on strategic projects aimed at enhancing long-term fibre efficiency and improving operational reliability. The Company currently plans to utilize its cash flow from operations and its available cash and operating loans to finance its capital expenditures during 2021.

Derivative Financial Instruments

Subject to risk management policies approved by its Board of Directors, CPPI, from time to time, uses derivative instruments, such as forward exchange contracts and option contracts to hedge future movements of exchange rates

and futures and forward contracts to hedge pulp prices, commodity prices and energy costs. See section “Financial Risk Management and Earnings Sensitivities” for further details. As at December 31, 2020 the Company had no derivative financial instruments outstanding.

Commitments

Contractual obligations the Company is committed to include:

- Other contractual commitments, not previously mentioned, total \$44.5 million, which includes commitments for the construction of capital assets and other working capital items. Commitments related to leases of property, plant and equipment are detailed in Note 6 of CPPI’s 2020 consolidated financial statements.
- The Company has energy purchase agreements with a BC energy company (the “Energy Agreements”) for all three of the Company’s kraft pulp mills. Two of these agreements are for the sale of incremental electrical energy and the third agreement is for load displacement. One of these Energy Agreements included incentive funding from a BC energy company to support capital investments for the new turbo-generator. All agreements include performance guarantees to ensure minimum contractual amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, the Company has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2020 the Company had posted \$2.2 million of standby letters of credit under these agreements, and had no repayment obligations under the terms of any of these agreements.
- The Company’s asset retirement obligations represent estimated undiscounted future payments of \$10.7 million to remediate the landfills at the end of their useful lives. Payments relating to landfill closure costs are expected to occur at periods ranging from 2 to 31 years which have been discounted at risk free rates ranging from 0.2% to 1.2%. The estimated discounted value is \$8.7 million, and the amount is included in ‘Other long-term provisions’ of CPPI’s 2020 consolidated financial statements.
- Obligations to pay pension and other post-employment benefits, for which a net liability for accounting purposes at December 31, 2020 was \$70.4 million. As at December 31, 2020, CPPI estimated that it would make contribution payments of \$2.7 million to its defined benefit pension plans in 2021 based on the last actuarial valuation for funding purposes.
- Purchase and contractual obligations in the normal course of business. Purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to “force majeure” clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on the Company’s requirements in any given year.

TRANSACTIONS WITH RELATED PARTIES

The Company undertakes transactions with various related entities. These transactions are in the normal course of business and are generally on similar terms as those accorded to unrelated third parties, except where noted otherwise.

In 2020, the Company depended on Canfor to provide approximately 68% 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. In 2018, the Company and Canfor entered into a new pricing agreement, which included a market-based chip pricing formula. The new pricing agreement was effective July 1, 2018, for a three-year term, to June 30, 2021.

In 2020, the Company purchased wood chips, logs and hog fuel from Canfor sawmills in the amount of \$232.5 million.

Canfor provides certain business and administrative services to the Company under a services agreement. The total amount charged for the services provided by Canfor in 2020 was \$18.4 million. These amounts are included in ‘Manufacturing and product costs’ and ‘Selling and administration costs’ within CPPI’s 2020 consolidated financial statements.

The Company provides certain business and administrative services to Canfor under an incidental services agreement. The total amount charged for the services provided to Canfor in 2020 was \$4.0 million. These amounts are included as a cost recovery in ‘Manufacturing and product costs’ and ‘Selling and administration costs’ within CPPI’s 2020 consolidated financial statements. At December 31, 2020, an outstanding balance of \$16.7 million was due to Canfor.

The Jim Pattison Group is Canfor's largest shareholder with an ownership interest of 50.9% at December 31, 2020. During 2020, the Company sold paper to subsidiaries owned by The Jim Pattison Group totaling \$3.0 million. The Company also made purchases from subsidiaries owned by The Jim Pattison Group totaling \$0.7 million. No amounts related to these sales or purchases were outstanding as at December 31, 2020.

Additional details on related party transactions are contained in Note 16 to CPPI's 2020 consolidated financial statements.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Sales and income (loss) (millions of Canadian dollars)								
Sales	\$ 237.8	\$ 226.4	\$ 250.7	\$ 275.6	\$ 247.5	\$ 216.9	\$ 319.5	\$ 304.0
Operating income (loss) before amortization ¹²	\$ (6.2)	\$ (8.7)	\$ 13.3	\$ 27.7	\$ 0.1	\$ (20.3)	\$ 41.7	\$ 40.4
Operating income (loss)	\$ (28.3)	\$ (27.6)	\$ (6.3)	\$ 6.1	\$ (23.5)	\$ (44.0)	\$ 18.4	\$ 18.1
Net income (loss)	\$ (10.2)	\$ (18.1)	\$ (1.1)	\$ 7.0	\$ (19.5)	\$ (32.4)	\$ 10.6	\$ 10.8
Per common share (Canadian dollars)								
Net income (loss) – basic and diluted	\$ (0.16)	\$ (0.28)	\$ (0.02)	\$ 0.11	\$ (0.30)	\$ (0.50)	\$ 0.16	\$ 0.17
Book value ¹³	\$ 8.16	\$ 8.25	\$ 8.57	\$ 8.66	\$ 8.56	\$ 8.92	\$ 9.47	\$ 9.21
Dividends declared	\$ -	\$ -	\$ -	\$ -	\$ 0.0625	\$ 0.0625	\$ 0.0625	\$ 0.0625
Statistics								
Pulp shipments (000 mt)	258	249	248	290	267	213	288	259
Paper shipments (000 mt)	35	27	36	34	26	27	33	33
Average exchange rate – US\$/Cdn\$	\$ 0.767	\$ 0.751	\$ 0.722	\$ 0.744	\$ 0.758	\$ 0.757	\$ 0.748	\$ 0.752
Average NBSK pulp list price delivered to China (US\$) ¹⁴	\$ 637	\$ 572	\$ 572	\$ 573	\$ 563	\$ 555	\$ 630	\$ 700

¹² Amortization includes amortization of certain capitalized major maintenance costs.

¹³ 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.

¹⁴ 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.

Sales are primarily influenced by changes in market pulp prices, sales volumes and fluctuations in Canadian dollar exchange rates. Operating income (loss), net income (loss) and operating income (loss) 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 operating rates and curtailments. Net income (loss) 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.

(millions of Canadian dollars)	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Operating income (loss) by segment:								
Pulp	\$ (30.2)	\$ (29.3)	\$ (12.0)	\$ 1.1	\$ (26.8)	\$ (45.5)	\$ 12.9	\$ 15.5
Paper	\$ 4.8	\$ 5.0	\$ 7.4	\$ 6.8	\$ 5.0	\$ 3.9	\$ 8.1	\$ 5.9
Unallocated	\$ (2.9)	\$ (3.3)	\$ (1.7)	\$ (1.8)	\$ (1.7)	\$ (2.4)	\$ (2.6)	\$ (3.3)
Total operating income (loss)	\$ (28.3)	\$ (27.6)	\$ (6.3)	\$ 6.1	\$ (23.5)	\$ (44.0)	\$ 18.4	\$ 18.1
Add: Amortization ¹⁵	\$ 22.1	\$ 18.9	\$ 19.6	\$ 21.6	\$ 23.6	\$ 23.7	\$ 23.3	\$ 22.3
Total operating income (loss) before amortization	\$ (6.2)	\$ (8.7)	\$ 13.3	\$ 27.7	\$ 0.1	\$ (20.3)	\$ 41.7	\$ 40.4
Add (deduct):								
Working capital movements	\$ 4.0	\$ (12.4)	\$ 42.8	\$ (22.6)	\$ 6.2	\$ 22.2	\$ 13.4	\$ (34.1)
Defined benefit pension plan contributions	\$ (0.6)	\$ (0.3)	\$ (1.0)	\$ (1.4)	\$ (1.4)	\$ (1.5)	\$ (1.4)	\$ (1.1)
Income taxes received (paid), net	\$ (0.1)	\$ (0.2)	\$ -	\$ 29.3	\$ (0.1)	\$ (0.1)	\$ (0.4)	\$ (4.0)
Other operating cash flows, net	\$ 13.9	\$ 5.2	\$ 6.8	\$ 6.5	\$ 0.4	\$ 1.0	\$ (1.0)	\$ (0.6)
Cash from (used in) operating activities	\$ 11.0	\$ (16.4)	\$ 61.9	\$ 39.5	\$ 5.2	\$ 1.3	\$ 52.3	\$ 0.6
Add (deduct):								
Capital additions, net	\$ (34.2)	\$ (8.1)	\$ (12.2)	\$ (18.8)	\$ (27.1)	\$ (26.0)	\$ (24.4)	\$ (25.5)
Dividends paid	\$ -	\$ -	\$ -	\$ (4.1)	\$ (4.1)	\$ (4.1)	\$ (4.1)	\$ (4.1)
Proceeds from term debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50.0	\$ -	\$ -
Other, net	\$ (0.8)	\$ (0.7)	\$ (0.7)	\$ (1.6)	\$ (1.4)	\$ (1.4)	\$ (1.2)	\$ (0.9)
Change in cash / operating loans	\$ (24.0)	\$ (25.2)	\$ 49.0	\$ 15.0	\$ (27.4)	\$ 19.8	\$ 22.6	\$ (29.9)

¹⁵ Amortization includes amortization of certain capitalized major maintenance costs.

THREE-YEAR COMPARATIVE REVIEW

(millions of Canadian dollars, except per share amounts)	2020	2019	2018
Sales	\$ 990.5	\$ 1,087.9	\$ 1,374.3
Net income (loss)	\$ (22.4)	\$ (30.5)	\$ 184.4
Total assets	\$ 920.8	\$ 920.8	\$ 932.0
Term debt	\$ 50.0	\$ 50.0	\$ -
Net income (loss) per share, basic and diluted	\$ (0.34)	\$ (0.47)	\$ 2.83
Dividends declared per share	\$ -	\$ 0.250	\$ 2.50

FOURTH QUARTER RESULTS

Overview

The Company reported an operating loss of \$28.3 million and a net loss of \$10.2 million for the fourth quarter of 2020, compared to an operating loss of \$27.6 million and a net loss of \$18.1 million for the third quarter of 2020 and an operating loss of \$23.5 million and a net loss of \$19.5 million for the fourth quarter of 2019. A net loss per share was \$0.16 for the fourth quarter of 2020, compared to a net loss per share of \$0.28 in the third quarter of 2020 and a net loss of \$0.30 per share in the fourth quarter of 2019.

The loss in the current period reflected continued soft market conditions and weak prices on pulp shipments as well as the capital-related downtime at Northwood. Compared to the third quarter of 2020, unit sales realizations were relatively unchanged with a 2% stronger Canadian dollar offsetting a modest uplift in prices towards the end of the period; reduced production from the Northwood RB5 lower furnace rebuild mostly offset the impact of material production curtailments in the previous quarter. The lower furnace replacement was completed mid-January, as planned, with a total capital cost of approximately \$27.0 million and total reduction in NBSK pulp production of 70,000 tonnes (60,000 tonnes in the current quarter and a further 10,000 tonnes in January 2021).

An overview of the results by business segment for the fourth quarter of 2020 compared to the third quarter of 2020 and the fourth quarter of 2019 follows.

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	Q4 2020	Q3 2020	Q4 2019
Sales	\$ 197.1	\$ 191.9	\$ 213.1
Operating loss before amortization ¹⁶	\$ (8.9)	\$ (11.2)	\$ (4.0)
Operating loss	\$ (30.2)	\$ (29.3)	\$ (26.8)
Inventory write-downs (recovery)	\$ (3.0)	\$ (3.0)	\$ (3.0)
Adjusted operating loss	\$ (33.2)	\$ (32.3)	\$ (29.8)
Average NBSK pulp price delivered to China – US\$ ^{17,18}	\$ 637	\$ 572	\$ 563
Average NBSK pulp price delivered to China – Cdn\$ ^{17,18}	\$ 830	\$ 761	\$ 743
Production – pulp (000 mt)	233	227	286
Shipments – pulp (000 mt)	258	249	267

¹⁶ Amortization includes amortization of certain capitalized major maintenance costs.

¹⁷ 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.

¹⁸ 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 edged upwards through October and November, with more solid increases seen in December, particularly in China, driven largely by global logistic constraints and improving global pulp inventory levels combined with strong indicators from the Shanghai Futures Exchange on future pulp US-dollar list prices. As a result, NBSK pulp list prices to China averaged US\$637 per tonne, as published by RISI, up US\$65 per tonne from the previous quarter. However, average US-dollar NBSK pulp list prices to North America at US\$1,138 per tonne (before discounts, which were largely unchanged from the previous quarter) were broadly in line with the previous quarter.

Global softwood pulp producer inventory levels improved as the current quarter progressed and at 35 days of supply in December 2020 (a decrease of 7 days from September 2020), were just above the balanced range; 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 fourth quarter of 2020 totaled 258,000 tonnes, up 9,000 tonnes, or 4%, from the third quarter of 2020 and down 9,000 tonnes, or 3%, from the fourth quarter of 2019. Increased shipments compared to the previous quarter principally reflected a drawdown of inventory in the current quarter during the aforementioned Northwood downtime and, to a lesser extent, the timing of vessels quarter-over-quarter. Compared to the fourth quarter of 2019, the decrease in pulp shipments primarily reflected lower production levels in the current quarter, offset in part by a drawdown in pulp inventories in the current quarter and a rebuild of pulp inventories in the comparative period.

The Company's average NBSK pulp unit sales realizations were broadly in line with both comparative periods, principally reflecting the timing of shipments (versus orders) and a stronger Canadian dollar. The rise in US-dollar list prices experienced in December, particularly to China, will largely be reflected in unit sales realizations in 2021, due to the time-lag between orders and shipments. Slightly higher BCTMP unit sales realizations in the fourth quarter of 2020 compared to the previous quarter, reflected a gradual and modest improvement in BCTMP demand and prices. Compared to the fourth quarter of 2019, average BCTMP unit sales realizations experienced a modest decline, primarily due to lower BCTMP US-dollar pricing in the current quarter combined with a stronger Canadian dollar.

Energy revenues were broadly in line with the prior quarter as decreased energy generation due to the aforementioned Northwood capital-related downtime was offset by seasonally higher energy prices in the current quarter. Compared to the fourth quarter of 2019, energy revenues were moderately down, primarily due to the decline in power generation at Northwood in the current quarter.

Operations

Pulp production was 233,000 tonnes for the fourth quarter of 2020, up 6,000 tonnes, or 3%, from the third quarter of 2020, largely reflecting the quarter-over-quarter impact of downtime. In the current quarter, pulp production was reduced by the completion of Northwood's scheduled maintenance outage in October (approximately 25,000 tonnes),

as well as the aforementioned extended outage on one production line at Northwood to enable the replacement of RB5's lower furnace (approximately 60,000 tonnes). In the third quarter of 2020, the combined impact of COVID-19 related curtailments at the Company's Intercontinental and PG pulp mills, as well as scheduled maintenance outages at Taylor and Northwood, reduced pulp production by 68,000 tonnes. To a lesser extent, improved productivity at the Company's PG and Taylor pulp mills in the current quarter more than offset several operational issues at the PG pulp mill in the prior quarter.

Compared to the fourth quarter of 2019, pulp production was down 53,000 tonnes, or 19%, primarily reflecting the Company's extended Northwood recovery boiler maintenance outage in the current period, offset in part, by increased production at the Company's Intercontinental, PG and Taylor pulp mills quarter-over-quarter.

Pulp unit manufacturing costs were slightly lower than the prior quarter as the benefit of reduced fibre costs in the current quarter mostly offset seasonally higher energy costs, as well as increased energy usage and operating labour and maintenance spend, following COVID-19 related curtailments in the prior period. Compared to the fourth quarter of 2019, pulp unit manufacturing costs were modestly higher, principally reflecting lower production in the current quarter, partially offset by reduced fibre costs. Fibre costs were down compared to both comparative periods, 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)	Q4 2020	Q3 2020	Q4 2019
Sales	\$ 40.7	\$ 34.5	\$ 34.2
Operating income before amortization ¹⁹	\$ 5.6	\$ 5.7	\$ 5.8
Operating income	\$ 4.8	\$ 5.0	\$ 5.0
Production – paper (000 mt)	36	24	28
Shipments – paper (000 mt)	35	27	26

¹⁹ Amortization includes amortization of certain capitalized major maintenance costs.

Markets

Global bleached kraft paper markets remained relatively stable through the fourth quarter of 2020, particularly in North America, as steady demand stemming from COVID-19 for food grade packaging, was offset by the traditional seasonal slow-down in kraft paper demand.

Sales

The Company's paper shipments in the fourth quarter of 2020 were 35,000 tonnes, up 8,000 tonnes from the previous quarter, and up 9,000 tonnes from the fourth quarter of 2019, principally reflecting increased paper production in the current period, with fibre-related downtime in both comparative quarters.

Paper unit sales realizations in the fourth quarter of 2020 were moderately lower than both comparative periods, as relatively flat US-dollar prices were combined with changes in regional sales mix and a stronger Canadian dollar quarter-over-quarter.

Operations

Paper production for the fourth quarter of 2020 was 36,000 tonnes, up 12,000 tonnes from the previous quarter, and up 8,000 tonnes from the fourth quarter of 2019, largely due to increased operating days in the current period following PG Pulp and Paper mill downtime in both comparative periods.

Paper unit manufacturing costs were moderately lower than both comparative quarters, primarily reflecting the benefit of increased production in the current quarter, offset in part by increased spend on operating supplies and maintenance (timing-related). Slush pulp costs were largely unchanged quarter-over-quarter.

Unallocated Items

(millions of Canadian dollars)	Q4 2020	Q3 2020	Q4 2019
Corporate costs	\$ (2.9)	\$ (3.3)	\$ (1.7)
Finance expense, net	\$ (1.2)	\$ (1.1)	\$ (1.6)
Other income (expense), net	\$ 15.6	\$ 4.0	\$ (1.5)

Corporate costs were \$2.9 million for the fourth quarter of 2020, down \$0.4 million compared to the third quarter of 2020, and up \$1.2 million compared to the fourth quarter of 2019, the latter variance reflecting increased head office and general administrative expenses in the current period.

Net finance expense for the fourth quarter of 2020 was \$1.2 million, in line with the third quarter of 2020 and down \$0.4 million compared to the fourth quarter of 2019. The decrease in finance expense compared to the fourth quarter of 2019 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 \$15.6 million for the fourth quarter of 2020 primarily reflected insurance proceeds of \$17.7 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 fourth quarter of 2020, the Company recorded a gain of \$6.4 million (before tax) related to changes in the valuation of the Company's employee future benefits plans, largely reflecting favourable actuarial experience adjustments and a higher than anticipated return on plan assets.

This compared to a loss of \$4.2 million (before tax) in the third quarter of 2020, largely reflecting a 0.3% decrease in the discount rate used to value the employee future benefit plans, partially offset by a higher than anticipated return on plan assets.

In the fourth quarter of 2019, the Company recorded a gain of \$0.1 million (before tax), as unfavourable actuarial experience adjustments, combined with increased interest and service costs, were more than offset by a higher than anticipated return on plan assets.

Summary of Financial Position

The following table summarizes CPPI's cash flow for the following periods:

(millions of Canadian dollars)	Q4 2020	Q3 2020	Q4 2019
Increase (decrease) in cash and cash equivalents	\$ (24.0)	\$ (25.2)	\$ (13.4)
Operating activities	\$ 11.0	\$ (16.4)	\$ 5.2
Financing activities	\$ (0.9)	\$ (0.9)	\$ 8.5
Investing activities	\$ (34.1)	\$ (7.9)	\$ (27.1)

Operating Activities

Cash generated from operating activities in the fourth quarter of 2020 was \$11.0 million, compared to cash used of \$16.4 million in the third quarter of 2020 and cash generated of \$5.2 million in the fourth quarter of 2019. The \$27.4 million increase in operating cash flows compared to the third quarter of 2020 was largely due to a decrease in finished pulp inventory at the end of the current quarter, combined with an increase in accounts payable and accrued liabilities (timing-related) and lower operating losses in the current period, offset in part by a build in wood chip inventory. Compared to the fourth quarter of 2019, the \$5.8 million increase in operating cash flows was principally driven by lower operating losses quarter-over-quarter.

Financing Activities

Cash used for financing activities in the fourth quarter of 2020 was \$0.9 million, in line with the third quarter of 2020, and compared to cash generated of \$8.5 million in the fourth quarter of 2019. Cash used for financing activities in the current quarter primarily reflected interest expense associated with the Company's term loan and financing fees associated with letters of credit. Financing activities in the fourth quarter of 2019 included a \$14.0 million draw down

of the Company's operating loan facility, offset in part by payment of a quarterly dividend of \$4.1 million (\$0.0625 per common share).

Investing Activities

Cash used for investing activities of \$34.1 million in the current quarter principally comprised of Northwood's RB5 capital upgrades, the completion of the construction of a new water treatment plant servicing the Company's PG and Intercontinental pulp mills, as well as maintenance-of-business capital.

OUTLOOK

Pulp Markets

In early 2021, global softwood kraft pulp market conditions have strengthened significantly in response to improved market fundamentals, particularly from China, where prices on the Shanghai Futures Exchange have surged in recent weeks. Reflecting this positive pricing momentum, the Company has announced increases to its NBSK pulp list price to China of US\$50 per tonne for January 2021 and a further US\$120 per tonne for February 2021, to US\$840 per tonne. It has also announced two consecutive price increases to North America of US\$30 per tonne and US\$115 per tonne, for January and February 2021, respectively, to US\$1,300 per tonne. Notwithstanding the potential for higher pricing volatility in the coming months, the Company currently projects the pricing environment to remain favourable for pulp producers through the first half of 2021.

The Company's results in the first quarter of 2021 will reflect the impact of the RB5 capital-related outage at Northwood into mid-January (approximately 10,000 tonnes). With the RB5 rebuild now completed and with much healthier fibre inventories, a key focus of the Company's kraft pulp mills in 2021, including Northwood, will be on improving operational reliability and closely managing manufacturing and fibre costs.

No major maintenance outages are planned for the first quarter of 2021; a maintenance outage is currently planned at the Intercontinental NBSK pulp mill in the second quarter of 2021, with a projected 12,000 tonnes of reduced NBSK pulp production. Smaller maintenance outages are scheduled for the third quarter of 2021 at the Prince George NBSK pulp mill and at the Taylor BCTMP mill with a projected 5,000 tonnes of reduced NBSK pulp production and projected 5,000 tonnes of reduced BCTMP production, respectively.

Paper Markets

Bleached kraft paper demand is currently anticipated to be relatively stable in the first quarter of 2021 as COVID-19 led demand for bleached kraft paper products is projected to continue in the near-term, particularly for paper products that meet food grade specifications. A maintenance outage is currently planned at the Company's paper machine in the third quarter of 2021 with a projected 5,000 tonnes of reduced paper production.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the amounts recorded in the consolidated financial statements. Management regularly reviews these estimates and assumptions based on 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 CPPI's financial position. Unless otherwise indicated the critical accounting estimates discussed affect all of the Company's reportable segments.

Employee Future Benefits

CPPI has various defined benefit and defined contribution plans providing both pension and other non-pension post-retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. CPPI also provides certain health care benefits and pension bridging benefits to eligible retired employees. The costs and related obligations of the pension and other non-pension post-retirement benefit plans are accrued in accordance with the requirements of IFRS.

CPPI uses independent actuarial firms to perform actuarial valuations of the fair value of pension and other non-pension post-retirement benefit plan obligations. The application of IFRS requires judgments regarding certain assumptions that affect the accrued benefit provisions and related expenses, including the discount rate used to calculate the present value of the obligations, the rate of compensation increases, mortality assumptions and the assumed health care cost trend rates. Management evaluates these assumptions annually based on experience and

the recommendations of its actuarial firms. Changes in these assumptions result in actuarial gains or losses, which are recognized in full in each period with an adjustment through Other Comprehensive Income.

The actuarial assumptions used in measuring CPPI's benefit plan provisions and benefit costs are as follows:

	December 31, 2020		December 31, 2019	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
Discount rate	2.7%	2.7%	3.0%	3.0%
Rate of compensation increases	3.0%	n/a	3.0%	n/a
Initial medical cost trend rate	n/a	5.0%	n/a	5.5%
Ultimate medical cost trend rate	n/a	4.5%	n/a	4.5%
Year ultimate rate is reached	n/a	2025	n/a	2022

Assumed discount rates, medical cost trend rates and mortality assumptions have a significant effect on the accrued retirement benefit obligation and related plan assets. In addition, the average life expectancy of a 65-year-old at December 31, 2020 is between 21.2 years and 24.3 years. As at December 31, 2020, the weighted average duration of the defined benefit plan obligation, which reflects the average age of the plan members, is 13.4 years. The weighted average duration of the other benefit plans is 13.0 years.

Asset Retirement Obligations

CPPI records the estimated fair value of liabilities for asset retirement obligations, such as landfill closures, in the period in which they are incurred. For landfill closure costs, the fair value is determined using estimated closure costs discounted over the estimated useful life. Payments relating to landfill closure costs are expected to occur at periods ranging from 2 to 31 years and have been discounted at risk-free rates ranging from 0.2% to 1.2%. The actual closure costs and periods of payment may differ from the estimates used in determining the year end liability. On initial recognition, the fair value of the liability is added to the carrying amount of the associated asset and amortized over its useful life. The liability is accreted over time through charges to earnings and reduced by actual costs of settlement.

Asset Impairments

CPPI reviews the carrying values of its long-lived assets, including property, plant and equipment and right-of-use assets, on a regular basis as events or changes in circumstances may warrant. An impairment loss is recognized in net income (loss) at the amount that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. No impairments were recorded in 2020.

Deferred Taxes

In accordance with IFRS, CPPI recognizes deferred income tax assets when it is probable that the deferred income tax assets will be realized. This assumption is based on Management's best estimate of future circumstances and events. If these estimates and assumptions are changed in the future, the value of the deferred income tax assets could be reduced or increased, resulting in an income tax expense or recovery. CPPI re-evaluates its deferred income tax assets on a regular basis.

Valuation of Finished Product Inventories

Finished product inventories are recorded at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. CPPI estimates the net realizable value of finished goods inventories based on actual and forecasted sales orders, as well as outlook prices and forecast exchange rates for the period over which the inventories are expected to be sold. Outlook prices are determined using Management's estimates at the end of the period, and may differ from the actual prices at which the inventories are sold. Based on these estimates, net write-downs of the Company's finished pulp and raw materials inventories from cost to net realizable value totaled \$2.2 million at December 31, 2020 (December 31, 2019 – \$10.7 million net write-down).

RISKS AND UNCERTAINTIES

Risks and uncertainties fall into the general business areas of markets, international commodity prices, competition, currency exchange rates, environmental issues, raw materials, capital requirements, dependence on certain relationships, government regulations, public policy and labour disputes, and Native land claims. The future impact of the various uncertainties and potential risks described in the following paragraphs (together with the risks and uncertainties identified under each of the Company's business segments) cannot be quantified or predicted with certainty. However, CPPI does not foresee unmanageable adverse effects on its business operations from, and believes that it is well positioned to deal with, such matters as may arise. The risks and uncertainties are set out in alphabetical order.

Capital Requirements

The pulp and paper industries are capital intensive, and the Company regularly incurs capital expenditures to expand its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws. The Company's total capital expenditures during 2020 were \$73.3 million. The Company anticipates available cash and operating loans, as well as cash generated from operations, will be sufficient to fund its operating needs and capital expenditures.

Climate Change

The Company's operations are subject to adverse events brought on by both natural and human-made disasters. These events include, but are not limited to, severe weather conditions, forest fires, earthquakes and timber diseases and insect infestations. These events could damage or destroy the Company's operating facilities, adversely affect Canfor's timber supply or result in reduced transportation availability. These events could have similar effect on the facilities of the Company's suppliers and customers. Any of the damage caused by these events could increase costs and decrease production capacity at the Company's operations having an adverse effect on the Company's financial results. The Company believes there are reasonable insurance arrangements in place to cover certain outcomes of such incidents; however, there can be no guarantees that these arrangements will fully protect the Company against such losses.

Competitive Markets

The Company's products are sold primarily in Asia and North America, with smaller volumes to other markets. The markets for the Company's products are highly competitive on a global basis, with a number of major companies competing in each market with no company holding a dominant position. Competitive factors include price, quality of product, volume, availability and reliability of supply, financial viability and customer service. The Company's competitive position is influenced by: the availability, quality, and cost of raw materials; chemical, energy and labour costs; free access to markets; currency exchange rates; plant efficiencies; and productivity in relation to its competitors. Access to markets could be influenced by global trade agreements, global Government relations and their impact on free trade. These factors could potentially limit market growth opportunities or limit the Company's ability to service its customers.

Coronavirus Outbreak (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, the Company announced a series of significant measures.

Due to a shortage of economically viable fibre in the region caused by COVID-19's impact on sawmill operating rates, the Company's Northwood pulp mill was curtailed for three weeks in the second quarter of 2020 and the PG pulp and paper and Intercontinental pulp mills were curtailed for four weeks in the third quarter of 2020.

In addition to these measures, the Company received a Canada Emergency Wage Subsidy ("CEWS") from the Government of Canada under its program to support eligible employers who experienced a meaningful reduction in revenue.

Apart from the aforementioned downtime, as an essential service, the Company has continued to operate, albeit with some minor disruptions, increased safety protocols and additional cleaning and sanitizing activities. The Company continues to closely monitor the impacts of COVID-19, however, and should the duration, spread or intensity of the

pandemic further develop, the supply chain, market pricing and customer demand could be further affected. These factors could impact the Company's operating plan, liquidity, cash flows, and the valuation of long-lived assets.

Currency Exchange Risk

The Company's operating results are sensitive to fluctuations in the exchange rate of the Canadian dollar to the US-dollar, as prices for the Company's products are denominated in US-dollars or linked to prices quoted in US-dollars. Therefore, an increase in the value of the Canadian dollar relative to the US-dollar reduces the amount of revenue in Canadian dollar terms realized by the Company from sales made in US-dollars, which in turn, reduces the Company's operating margin and the cash flow available.

Cyclicality of Product Prices

The Company's financial performance is dependent upon the selling prices of its pulp and paper products, which have fluctuated significantly in the past. The markets for these products are cyclical and may be characterized by (i) periods of excess product supply due to industry capacity additions, increased global production and other factors; and (ii) periods of insufficient demand due to weak general economic conditions. The economic climate of each region where the Company's products are sold has a significant impact upon the demand, and therefore, the prices for pulp and paper. Prices of pulp, in particular, have historically, to some degree, been unpredictable.

Dependence on Canfor

In 2020, approximately 68% of the fibre used by the Company was derived from the Fibre Supply Agreements with Canfor. The current pricing under these agreements expires June 30, 2021, and may be amended as necessary to ensure it is reflective of market conditions. The Company's financial results could be materially adversely affected if Canfor is unable to provide the current volume of wood chips as a result of mill closures, whether temporary or permanent.

Dependence on Key Customers

In 2020, the Company's top five customers accounted for approximately 35% of its pulp sales and one customer in the pulp segment accounted for 13% of the Company's total sales. In the event that the Company cannot maintain these customer relationships or the demand from these customers is diminished for any reason in the future, there is a risk that the Company would be forced to find alternative markets in which to sell its pulp, which in turn, could result in lower prices or increased distribution costs thereby adversely affecting its sales margins.

Dividends

In April 2020, recognizing the ongoing difficult conditions and uncertainties caused by COVID-19, and in support of the Company's cash preservation efforts, the Board of Directors decided to suspend the quarterly dividend for the foreseeable future.

Employee Future Benefits

The Company, in participation with Canfor, has several defined benefit plans, which provide pension benefits to certain salaried employees. Benefits are based on a combination of years of service and final average salary. Cash payments required to fund the pension plan are determined by actuarial valuation completed at least once every three years, with the most recent actuarial valuation for the largest plan completed as of December 31, 2019.

The funded surplus (deficit) of each defined benefit plan is calculated as the difference between the fair market value of plan assets and an actuarial estimate of future liabilities. Any deficit in the registered plans determined following an actuarial valuation must be funded in accordance with regulatory requirements, normally over 5 or 15 years. Some of the unregistered plans are also partially funded.

Through its pension funding requirements, the Company through Canfor, is exposed to the risk of fluctuating market values for the securities making up the plan assets, and to changes in prevailing interest rates which determine the discount rate used in calculating the estimated future liabilities. The funding requirements may also change to the extent that other assumptions used are revised, such as inflation rates or mortality assumptions.

The Company utilizes investments in buy-in annuities to reduce its exposure to these risks. Future cash flows from the annuities match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations.

For CPPI's pension benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the accrued benefit obligation, net of annuity assets, by an estimated \$12.5 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation by an estimated \$15.6 million. These changes would only impact the Company's funding requirements in years where a new actuarial funding valuation was performed and regulatory approval for a change in funding contributions was obtained.

Environmental Laws, Regulations and Compliance

The Company is subject to a wide range of general and industry-specific laws and regulations relating to the protection of the environment, including those governing air emissions, wastewater discharges, the storage, management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, landfill operation and closure obligations, and health and safety matters. These laws and regulations require the Company to comply with specific requirements as described in regulations. Regulations may also require the Company to obtain authorizations and comply with the authorization requirements of the appropriate governmental authorities which have considerable discretion over the terms and timing of said authorizations and permits.

The Company has incurred, and expects to continue to incur, capital, operating and other expenditures complying with applicable environmental laws and regulations and as a result of environmental remediation on asset retirement obligations. It is possible that the Company could incur substantial costs, such as civil or criminal fines, sanctions and enforcement actions, cleanup and closure costs, and third party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws and regulations. The amount and timing of environmental expenditures is difficult to predict, and, in some cases, the Company's liability may exceed forecasted amounts. The discovery of additional contamination or the imposition of additional cleanup obligations at the Company's or third party sites may result in significant additional costs. In addition, the Company's operations will be subject to increasing costs associated with carbon related taxes and will be actively working to mitigate through investment in green technology. Any material expenditure incurred could adversely impact the Company's financial condition or preclude the Company from making capital expenditures that would otherwise benefit the Company's business. Enactment of new environmental laws or regulations or changes in existing laws or regulations, or interpretation thereof, could have a significant impact on the Company.

Financial Risk Management and Earnings Sensitivities

Demand for pulp and paper products is closely related to global business conditions and tends to be cyclical in nature. Product prices can be subject to volatile change. CPPI competes in a global market and the majority of its products are sold in US-dollars. Consequently, changes in foreign currency relative to the Canadian dollar can impact CPPI's revenues and earnings.

Financial Risk Management

CPPI is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market risk.

CPPI's internal Risk Management Committee manages risk in accordance with a Board approved Price Risk Management Controls Policy. This policy provides the framework for risk management related to commodity price, foreign exchange, interest rate and counterparty credit risk of the Company.

(a) Credit risk:

Credit risk is the risk of financial loss to CPPI if a counterparty to a financial instrument fails to meet its contractual obligations.

Financial instruments that are subject to credit risk include cash and cash equivalents, trade and other accounts receivable. Contract assets are also subject to credit risk. Cash and cash equivalents includes cash held through major Canadian and international financial institutions as well as temporary investments with an original maturity

date, or redemption date, of three months or less. The cash and cash equivalents balance at December 31, 2020 is \$6.8 million.

CPPI utilizes credit insurance to manage the risk associated with trade accounts receivables. As at December 31, 2020, approximately 72% of the outstanding trade accounts receivables are covered under credit insurance. In addition, CPPI requires letters of credit on certain export trade accounts receivables and regularly discounts these letters of credit without recourse. CPPI recognizes the sale of the letters of credit on the settlement date, and accordingly reduces the related trade accounts receivable balance. CPPI's trade accounts receivable balance at December 31, 2020 is \$65.3 million before a loss allowance of \$1.0 million. At December 31, 2020, approximately 99% of the trade accounts receivable balance are within CPPI's established credit terms.

(b) Liquidity risk:

Liquidity risk is the risk that CPPI will be unable to meet its financial obligations as they come due. The Company manages liquidity risk through regular cash flow forecasting in conjunction with an adequate operating loan facility and term loan.

At December 31, 2020, CPPI had cash and cash equivalents of \$6.8 million, with \$97.1 million available and undrawn on its operating loan facility. As a result, at December 31, 2020, the Company had available liquidity of \$103.9 million, accounts payable and accrued liabilities of \$161.6 million, and term debt of \$50.0 million.

(c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates, foreign currency, commodity and energy prices.

(i) Interest rate risk:

CPPI is exposed to interest rate risk through its current financial assets and financial obligations bearing variable interest rates. CPPI may use interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates.

As noted earlier in this section (under "Employee Future Benefits"), CPPI is also exposed to interest rate risk in relation to the measurement of the Company's pension and non-pension post-retirement liabilities.

(ii) Currency risk:

CPPI is exposed to foreign exchange risk primarily related to the US-dollar, as CPPI products are sold globally with prices primarily denominated in US-dollars or linked to prices quoted in US-dollars with certain expenditures transacted in US-dollars. In addition, the Company holds financial assets and liabilities in US-dollars. These primarily include US-dollar bank accounts, investments and trade accounts.

An increase (decrease) in the value of the Canadian dollar by US\$0.01 would result in a pre-tax loss (gain) of approximately \$0.4 million in relation to working capital balances denominated in US-dollars at year end (including cash, accounts receivable and accounts payable). A portion of the currency risk associated with US-dollar denominated sales is naturally offset by US-dollar denominated expenses. A portion of the remaining exposure is sometimes covered by foreign exchange collar contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US-dollars.

(iii) Commodity price risk:

CPPI's financial performance is dependent on the selling price of its products and the purchase price of raw material inputs. Consequently, CPPI is exposed to changes in commodity prices for pulp and paper, as well as changes in fibre, freight, chemical and energy prices. The markets for pulp and paper are cyclical and are influenced by a variety of factors. These factors include periods of excess supply due to industry capacity additions, periods of decreased demand due to weak global economic activity, inventory destocking by customers and fluctuations in currency exchange rates. During periods of low prices, CPPI is subject to reduced revenues and margins, which adversely impact profitability.

From time to time, CPPI enters into futures contracts on commodity exchanges for pulp. Under the Company's Price Risk Management Controls Policy, up to 1% of pulp sales may be sold in this way.

CPPI is also exposed to commodity price risk on the sale of electricity in Canada. Prices are set by third party regulatory bodies.

(iv) *Energy price risk:*

CPPI is exposed to energy price risk relating to purchases of natural gas and diesel oil for use in its operations. The annual exposure is, from time to time, hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of eighteen months.

At December 31, 2020 the Company had no fixed interest rate swaps, foreign exchange contracts, pulp futures, energy fixed swaps or option contracts outstanding.

Earnings Sensitivities

Estimates of the sensitivity of CPPI's pre-tax results to currency fluctuations and prices for its principal products, based on 2021 forecast production and year end foreign exchange rates, are set out in the following table:

(millions of Canadian dollars)	Impact on annual pre-tax earnings
NBSK Pulp – US\$10 change per tonne ²⁰	\$ 10
BCTMP – US\$10 change per tonne ²⁰	\$ 3
Natural gas cost – \$1 change per gigajoule	\$ 11
Chip cost – \$1 change per tonne	\$ 3
Canadian dollar – US\$0.01 change per Canadian dollar ²¹	\$ 8

²⁰ Excluding impacts of exchange rate, freight, discounting, potential change in fibre costs and other deductions.

²¹ Represents impact on operating income (loss) and excludes the impact on operating loans denominated in US\$. Decrease of US\$0.01 per Canadian dollar results in an increase to pre-tax annual earnings and an increase of US\$0.01 per Canadian dollar results in a decrease to pre-tax annual earnings.

Government and Other Regulations

The Company is subject to a wide range of general and industry-specific environmental, health and safety and other laws and regulations imposed by federal, provincial and local authorities. If the Company is unable to extend or renew a material approval, license or permit required by such laws, or if there is a delay in renewing any material approval, license or permit, the Company's business, financial condition, results of operations and cash flows could be materially adversely affected. In addition, future events such as any changes in these laws and regulations or any change in their interpretation or enforcement, or the discovery of currently unknown conditions, may give rise to unexpected expenditures or liabilities.

Increased Industry Production Capacity

The Company currently faces major competition in the global pulp industry and may face increased industry competition in the years to come if new manufacturing facilities are built or if existing mills are improved. If increases in pulp production capacity exceed increases in pulp demand, selling prices for pulp could decline and adversely affect the Company's business, financial condition, results of operations and cash flows, and the Company may not be able to compete with competitors who have greater financial resources and who are better able to weather a prolonged decline in prices.

Indigenous Relations

CPPI sources the majority of its fibre from areas subject to claims of Indigenous rights or title. In November 2019, the Government of British Columbia passed legislation (*Declaration on the Rights of Indigenous Peoples Act*) to implement the United Nations Declaration on the Rights of Indigenous Peoples. The legislation aims to create a path forward that respects the human rights of Indigenous peoples while introducing better transparency and predictability to the work the BC government and Indigenous peoples do together. This work aims to foster increased and lasting certainty on the land base while ensuring that the benefits of sustainable forest harvesting are realized equitably by those engaged in and impacted by the forest sector.

In December 2020, the Government of Canada tabled Bill C-15, which is the federal government's response to implementing the United Nations Declaration on the Rights of Indigenous Peoples. The Bill is proceeding through the legislative process and could undergo changes before becoming legislation.

Canadian judicial decisions have recognized the continued existence of Indigenous rights and title to lands continuously and exclusively used or occupied by Indigenous groups; however, until recently, the courts have not identified any specific lands where Indigenous title exists. In June 2014, the Supreme Court of Canada, for the first

time, recognized Indigenous title for the Tsilhqot'in Nation over approximately 1,750 square kilometres of land in central BC ("William decision"). It found that provisions of BC's *Forest Act*, dealing with the disposition or harvest of Crown timber, no longer applied to timber located on these lands, but also confirmed provincial law can apply on Indigenous title lands.

While Indigenous title had previously been assumed over specific, intensively occupied areas such as villages, the William decision marks the first time Canada's highest court has recognized Indigenous title over a specific piece of land and, in so doing, affirmed a broader territorial use-based approach to Indigenous title. The decision also defines what Indigenous title means and the types of land uses consistent with this form of collective ownership.

The impacts of BC's *Declaration on the Rights of Indigenous Peoples Act*, the federal government's Bill C-15 and the William decision on the timber supply from Crown lands is unknown at this time; and the Company does not know if they will lead to changes in BC or federal laws or policies. CPPI supports the work of tenure holders to engage, cooperate and exchange information and views with Indigenous Nations and Government to foster good relationships and minimize risks to the Company's operational plans.

Information Technology

CPPI's information technology systems serve an important role in the operation of its business. CPPI relies on various technologies to access fibre, operate its production facilities, interact with customers, vendors and employees and to report on its business. Interruption, failure or unsuccessful implementation and integration of CPPI's information technology systems could result in material and adverse impacts on the Company's financial condition, operations, production, sales, and reputation and could also result in environmental and physical damage to Company operations or surrounding areas.

CPPI's information technology systems and networks could be interrupted or fail due to a variety of causes, such as natural disaster, fire, power outages, vandalism, or cyber-based attacks. Any such interruption or failure could result in operational disruptions or the misappropriation of sensitive or proprietary data that could subject CPPI to civil penalties, litigation or have a negative impact on the Company's reputation. There can be no assurance that such disruptions or misappropriations and the resulting repercussions will not negatively impact the Company's cash flows and have a material adverse effect on its business, operations, financial condition and operational results.

Although to date CPPI has not experienced any material losses relating to cyber risks, there can be no assurance that the Company will not incur such losses in the future. CPPI's risk and exposure cannot be fully mitigated due to the nature of these threats. The Company continues to develop and enhance internal controls, policies and procedures designed to protect systems, servers, computers, software, data and networks from attack, damage or unauthorized access remain a priority. CPPI has established a Management Cyber Risk Committee to assess and monitor risk mitigation efforts and to respond to emerging threats. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Labour Agreements and Competition for Professional Skilled Labour

Any labour disruptions and any costs associated with labour disruptions at the Company's mills could have a material adverse effect on the Company's production levels and results of operations. Any inability to negotiate acceptable contracts with the Unifor and PPWC unions as they expire could result in a strike or work stoppage by the affected workers and increased operating costs as a result of higher wages or benefits paid to unionized workers. The Company negotiated its collective agreements with Unifor and PPWC at its PG operations in 2017; both labour agreements are set to expire on April 30, 2021.

Maintenance Obligations and Facility Disruptions

The Company's manufacturing processes are vulnerable to operational problems that can impair its ability to manufacture its products. The Company could experience a breakdown in any of its machines, or other important equipment, and from time to time, the Company schedules planned and incurs unplanned outages to conduct maintenance that cannot be performed safely or efficiently during operations. Such disruptions could cause significant loss of production, which could have a material adverse effect on the Company's business, financial condition and operating results. The Company believes there are reasonable insurance arrangements in place to cover certain outcomes of such incidents; however, there can be no guarantees that these arrangements will fully protect the Company against such losses.

Raw Material Costs

The principal raw material utilized by the Company in its manufacturing operations is wood chips. The Company's evergreen Fibre Supply Agreements with Canfor contain pricing formulas that results in the Company paying market price for wood chips and contains provisions to adjust the pricing to reflect market conditions. The current pricing under these agreements expires June 30, 2021, and may be amended as necessary to ensure it is reflective of market conditions. Prices for wood chips are not within the Company's control and are driven by market demand, product availability, environmental restrictions, logging regulations, the imposition of fees or other restrictions on exports of lumber into the US and other matters. The impact of the Mountain Pine Beetle infestation in the region continues to impact overall fibre supply for the BC interior sawmills. The Prince George Timber Supply Area allowable annual cut ("AAC") has recently been reduced and is scheduled for another reduction in 2023. This has the potential to significantly reduce the availability of residual chips that the Company currently consumes from regional sawmills, and an increased reliance on higher-cost whole log chips will be required. A lower AAC in the region may also reduce the availability of pulpwood for whole log chips. Residual chip pricing also depends on current sawmills running at current levels. If the residual chip supply is reduced as a result of AAC reductions, lower sawmill production or sawmill closures, whether temporary or permanent, it is expected that the market price for wood chips will increase. The Company is not always able to increase the selling prices of its products in response to increases in raw material costs.

Transportation Services

The Company relies on third parties for transportation of its products, as well as delivery of raw materials principally by railroad, trucks and ships. If any significant third party transportation providers were to fail to deliver the raw materials or products or distribute them in a timely manner, the Company may be unable to sell those products at full value, or at all, or be unable to manufacture its products in response to customer demand, which may have a material adverse effect on its financial condition and operating results. In addition, if any of these significant third parties were to cease operations or cease doing business with the Company, the Company may be unable to replace them at a reasonable cost. Transportation services may also be impacted by seasonal factors, which could impact the timely delivery of raw materials and distribution of products to customers and have a resulting material adverse impact on CPPI's financial condition and operating results. As a result of increased government regulation on truck driver work hours and rail capacity constraints, access to adequate transportation capacity has at times been strained and could affect the Company's ability to move its wood chips, pulp and paper at market competitive prices.

OUTSTANDING SHARE DATA

At February 24, 2021 there were 65,233,559 common shares issued and outstanding.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related consolidated financial statements was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2020, and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR"), and confirm that there were no changes in these controls that occurred during the year ended December 31, 2020 which materially affected, or are reasonably likely to materially affect, the Company's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2020, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2020 Annual Information Form, is available at www.sedar.com or at www.canfor.com .



CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY

The information and representations in these consolidated financial statements are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards and, where necessary, reflect management's best estimates and judgments at this time. It is reasonably possible that circumstances may arise which cause actual results to differ.

Canfor Pulp Products Inc. maintains systems of internal controls over financial reporting, policies and procedures to provide reasonable assurance as to the reliability of the financial records and the safeguarding of its assets.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out these activities primarily through its Audit Committee.

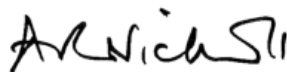
The Audit Committee is comprised of three Directors who are not employees of the Company. The Audit Committee meets periodically throughout the year with management, external auditors and internal auditors to review their respective responsibilities, results of the reviews of internal controls over financial reporting, policies and procedures and financial reporting matters. The external and internal auditors meet separately with the Audit Committee.

The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The consolidated financial statements have been audited by KPMG LLP, the external auditors, whose report follows.

February 24, 2021



Don B. Kayne
Chief Executive Officer



Alan Nicholl
Chief Financial Officer and Executive Vice President, Finance and
Canfor Pulp Operations



KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canfor Pulp Products Inc.

Opinion

We have audited the consolidated financial statements of Canfor Pulp Products Inc. (the Entity), which comprise:

- the consolidated balance sheets as at December 31, 2020 and December 31, 2019
- the consolidated statements of income (loss) for the years then ended
- the consolidated statements of other comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of the measurement of accrued benefit obligations

Description of the matter

We draw attention to Notes 3 and 10 to the financial statements. The Entity has recorded net retirement benefit obligations of \$68.1 million which consists of accrued benefit obligations of \$217.0 million, offset by the fair market value of plan assets of \$148.9 million. The accrued benefit obligations are based on actuarial determinations. In determining the estimated future costs, the Entity's significant assumptions include discount rates, mortality assumptions and health care cost trend rates.

Why the matter is a key audit matter

We identified the evaluation of the measurement of the accrued benefit obligations as a key audit matter given the magnitude of the accrued benefit obligations and the reliance on actuarial assumptions. In addition, significant auditor judgment was required in evaluating the results of our audit procedures due to the sensitivity of the accrued benefit obligations to minor changes in significant assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We assessed the professional competence, experience and objectivity of the actuarial specialists engaged by the Entity to estimate the accrued benefit obligations using actuarial methods and assumptions including mortality and health care cost trend rates.
- On a select basis, we compared data provided by the Entity to the actuarial specialists to underlying source records.
- We evaluated the appropriateness of discount rate assumptions by assessing changes in the discount rates from the prior year against changes in published rates as compiled by our actuarial specialists.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2020 Canfor Pulp Products Inc. Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2020 Canfor Pulp Products Inc. Annual Report" is expected to be made



available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our



opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance for the financial statements with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is John Desjardins.

Vancouver, Canada
February 24, 2021

Canfor Pulp Products Inc. Consolidated Balance Sheets

(millions of Canadian dollars)	As at December 31, 2020	As at December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6.8	\$ 6.0
Accounts receivable - Trade	64.3	80.5
- Other (Note 18(b))	13.6	6.6
Income taxes receivable	26.0	29.7
Inventories (Note 4)	188.5	193.7
Prepaid expenses and other	18.6	14.8
Total current assets	317.8	331.3
Property, plant and equipment and intangible assets (Note 5)	594.5	580.8
Right-of-use assets (Note 6(a))	2.0	2.5
Other long-term assets	6.5	6.2
Total assets	\$ 920.8	\$ 920.8
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	\$ 161.6	\$ 142.2
Operating loan (Note 8)	-	14.0
Current portion of lease obligations (Note 6(b))	1.0	1.0
Total current liabilities	162.6	157.2
Term debt (Note 9)	50.0	50.0
Lease obligations (Note 6(b))	1.5	1.9
Retirement benefit obligations (Note 10)	70.4	68.6
Other long-term provisions (Note 11)	8.7	7.1
Deferred income taxes, net (Note 14)	95.1	77.7
Total liabilities	\$ 388.3	\$ 362.5
EQUITY		
Share capital (Note 12)	\$ 480.8	\$ 480.8
Retained earnings	51.7	77.5
Total equity	\$ 532.5	\$ 558.3
Total liabilities and equity	\$ 920.8	\$ 920.8

Commitments and Contingencies (Note 18) and Subsequent Event (Note 18(c))

The accompanying notes are an integral part of these consolidated 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.
Consolidated Statements of Income (Loss)

(millions of Canadian dollars, except per share data)	Years ended December 31,	
	2020	2019
Sales	\$ 990.5	\$ 1,087.9
Costs and expenses		
Manufacturing and product costs	804.5	858.4
Freight and other distribution costs	136.2	141.8
Amortization	82.2	92.9
Selling and administration costs	23.7	25.8
	1,046.6	1,118.9
Operating loss	(56.1)	(31.0)
Finance expense, net (Note 13)	(5.2)	(6.6)
Other income (expense), net (Note 18(c))	30.7	(4.0)
Net loss before income taxes	(30.6)	(41.6)
Income tax recovery (Note 14)	8.2	11.1
Net loss	\$ (22.4)	\$ (30.5)
Net loss per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 12)	\$ (0.34)	\$ (0.47)

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

Canfor Pulp Products Inc.
Consolidated Statements of Other Comprehensive Income

(millions of Canadian dollars)	Years ended December 31,	
	2020	2019
Net loss	\$ (22.4)	\$ (30.5)
Other comprehensive income		
Items that will not be reclassified subsequently to net income:		
Defined benefit plan actuarial gains, net (Note 10)	1.0	12.2
Income tax expense on defined benefit plan actuarial gains, net (Note 14)	(0.3)	(3.3)
Other comprehensive income, net of tax	0.7	8.9
Total comprehensive loss	\$ (21.7)	\$ (21.6)

Consolidated Statements of Changes in Equity

(millions of Canadian dollars)	Years ended December 31,	
	2020	2019
Share capital		
Balance at beginning of year	\$ 480.8	\$ 480.9
Share purchases (Note 12)	-	(0.1)
Balance at end of year	\$ 480.8	\$ 480.8
Retained earnings		
Balance at beginning of year	\$ 77.5	\$ 115.7
Net loss	(22.4)	(30.5)
Defined benefit plan actuarial gains, net of tax	0.7	8.9
Dividends declared (Note 12)	(4.1)	(16.4)
Impact of change in lease accounting policy	-	(0.1)
Share purchases (Note 12)	-	(0.1)
Balance at end of year	\$ 51.7	\$ 77.5
Total equity	\$ 532.5	\$ 558.3

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

Canfor Pulp Products Inc.
Consolidated Statements of Cash Flows

(millions of Canadian dollars)	Years ended December 31,	
	2020	2019
Cash generated from (used in):		
Operating activities		
Net loss	\$ (22.4)	\$ (30.5)
Items not affecting cash:		
Amortization	82.2	92.9
Income tax recovery	(8.2)	(11.1)
Employee future benefits expense	4.0	3.5
Finance expense, net	5.2	6.6
Other, net	(2.3)	0.3
Defined benefit plan contributions, net	(3.3)	(5.4)
Income taxes received (paid), net	29.0	(4.6)
	84.2	51.7
Net change in non-cash working capital (Note 15)	11.8	7.7
	96.0	59.4
Financing activities		
Payments of lease obligations (Note 6(b))	(0.9)	(1.1)
Operating loan drawings (repayments) (Note 8)	(14.0)	14.0
Proceeds from term debt (Note 9)	-	50.0
Finance expenses paid	(3.4)	(3.8)
Dividends paid (Note 12)	(4.1)	(16.4)
Share purchases (Note 12)	-	(0.2)
	(22.4)	42.5
Investing activities		
Additions to property, plant and equipment and intangible assets, net (Note 5)	(73.3)	(103.0)
Other, net	0.5	0.2
	(72.8)	(102.8)
Increase (decrease) in cash and cash equivalents*	0.8	(0.9)
Cash and cash equivalents at beginning of year*	6.0	6.9
Cash and cash equivalents at end of year*	\$ 6.8	\$ 6.0

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

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

Canfor Pulp Products Inc. Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and December 31, 2019
(millions of Canadian dollars unless otherwise noted)

1. Reporting Entity

Canfor Pulp Products Inc. ("CPPI") is a company incorporated and domiciled in Canada and listed on The Toronto Stock Exchange. The address of the Company's registered office is 100-1700 West 75th Avenue, Vancouver, British Columbia, Canada, V6P 6G2. The consolidated financial statements of the Company as at and for the year ended December 31, 2020 comprise the Company and its subsidiaries (hereinafter referred to as "CPPI" or "the Company"). The Company's operations consist of two Northern Bleached Softwood Kraft ("NBSK") pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia, a Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill located in Taylor, British Columbia and a marketing group based in Vancouver, British Columbia.

At December 31, 2020, and February 24, 2021, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI, unchanged from December 31, 2019.

2. Basis of Preparation

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on February 24, 2021.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for certain items as discussed in the applicable accounting policies under Note 3.

Use of estimates and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Company regularly reviews its estimates and assumptions; however, it is possible that circumstances may arise which may cause actual results to differ from management's estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the applicable notes:

- Note 4 – Inventories;
- Note 5 – Property, Plant and Equipment and Intangible Assets;
- Note 6 – Leases;
- Note 10 – Employee Future Benefits;
- Note 11 – Asset Retirement Obligations; and
- Note 14 – Income Taxes.

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

3. Significant Accounting Policies

The following accounting policies have been applied to the financial information presented.

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when CPPI is able to govern the financial and operating activities of those other entities to generate returns for the Company. Inter-company transactions, balances and unrealized gains and losses on transactions between different entities within the Company are eliminated.

For joint operations, the Company recognizes its assets, liabilities and transactions, including its share of those incurred jointly, in its consolidated financial statements.

Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and liquid money market instruments with original maturities, or redemption dates, of three months or less from the date of acquisition, and are valued at amortized cost, which approximates market value. Cash is presented net of unrepresented cheques. When the amount of unrepresented cheques is greater than the amount of cash, the net amount is presented as cheques issued in excess of cash on hand. Interest is earned at variable rates dependent on amount, credit quality and term of the Company's deposits.

Financial Instruments

Financial instruments comprise cash and cash equivalents, trade and other accounts receivables, accounts payable and accrued liabilities, as well as the Company's operating loan and term debt. From time to time, CPPI uses derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange, interest rate, commodity price, and energy price risk. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. When applicable, CPPI's derivative financial instruments are not designated as hedges for accounting purposes.

CPPI's financial instruments are classified and measured as follows:

Financial Assets:	
Cash and cash equivalents	Amortized cost
Trade and other accounts receivables	Amortized cost
Financial Liabilities:	
Accounts payable and accrued liabilities	Amortized cost
Operating loan	Amortized cost
Term debt	Amortized cost

Classification and measurement of financial assets

Financial assets are classified as either measured at amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through net income ("FVTPL") based on the business model in which a financial asset is managed, its contractual cash flow characteristics and when certain conditions are met:

- Amortized cost – measured at amortized cost using the effective interest rate method. Where applicable, amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairments are recognized in net income.
- FVOCI – measured at FVOCI if not designated as FVTPL. Interest income, foreign exchange gains and losses and impairments are recognized in net income. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to net income.
- FVTPL – measured at FVTPL if not classified as amortized cost or FVOCI with net gains and losses, including any interest or dividend income, recognized in net income.

Equity investments are required to be classified as measured at fair value. However, on initial recognition of an equity investment that is not held-for-trading, the Company may irrevocably elect to present subsequent changes in the investments fair value in other comprehensive income. This election is made on an investment by investment basis. The Company does not currently hold any equity investments.

Classification and measurement of financial liabilities

Financial liabilities are classified as either measured at amortized cost or FVTPL. A financial liability is classified as FVTPL if it is held-for-trading, a derivative, or if it is designated such on initial recognition. Financial liabilities at FVTPL are measured at fair value with net gains and losses, including interest expense, recognized in net income. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Interest expense and foreign exchange gains and losses are recognized in net income. Any gains or losses on derecognition are also recognized in net income.

Impairment

The Company applies the simplified approach in determining expected credit losses ("ECLs"), which requires a probability-weighted estimate of expected lifetime credit losses to be recognized upon initial recognition of financial assets measured at amortized cost and contract assets. Any credit losses are measured as the present value of cash shortfalls from all possible default events, discounted at the effective interest rate of the financial asset. Any loss allowances for financial assets at amortized cost are deducted from the gross carrying amount of the assets.

Inventories

Inventories include pulp, paper, wood chips, logs, and materials and supplies. These are measured at the lower of cost and net realizable value, and are presented net of applicable write-downs. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). The Company estimates the net realizable value of finished goods inventories based on actual and forecasted sales orders, as well as outlook prices and forecast exchange rates for the period over which the inventories are expected to be sold. Outlook prices are determined using management's estimates at the end of the period, and may differ from the actual prices at which the inventories are sold.

Leases

Lease Definition

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An identified asset may be implicitly or explicitly specified in a contract, but must be physically distinct, and must not have the ability for substitution by a lessor. The Company has the right to control an identified asset if it obtains substantially all of its economic benefits and either pre-determines, or directs how and for what purpose the asset is used.

Measurement of Right-of-Use Assets and Lease Obligations

At lease commencement, the Company recognizes a right-of-use asset ("ROU asset") and a lease obligation. The ROU asset is initially measured at cost, which comprises the initial amount of the lease obligation adjusted for any lease payments made at, or before, the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The ROU asset is subsequently amortized on a straight-line basis over the shorter of the term of the lease, or the useful life of the assets determined on the same basis as the Company's property, plant and equipment. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease obligation.

The lease obligation is initially measured at the present value of lease payments remaining at the lease commencement date, discounted using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease obligation, when applicable, may comprise fixed payments, variable payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase, extension or termination option that the Company is reasonably certain to exercise.

The lease obligation is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease obligation is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset.

Recognition Exemptions

The Company has elected not to recognize ROU assets and lease obligations for short-term leases that have a lease term of twelve months or less or for leases of low-value assets. Payments associated with these leases are recognized as an operating expense on a straight-line basis over the lease term within costs and expenses on the consolidated statement of income.

Property, plant and equipment

Items of property, plant and equipment, including expenditure on major overhauls, are measured at cost less accumulated amortization and impairment losses.

Cost includes expenditures which are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs (as applicable), and any other costs directly attributable to bringing assets to the location and condition necessary for it to be used in the manner intended by management.

Expenditure on major overhauls, refits or repairs is capitalized where it enhances the life or performance of an asset above its originally assessed standard of performance. Certain expenditures relating to replacement of components incurred during major maintenance are capitalized and amortized over the estimated benefit period of such expenditures. The costs of the day-to-day servicing of property, plant and equipment are recognized in net income as incurred.

The cost of replacing a major component of an item of property, plant and equipment is recognized in the carrying amount of the item if the future economic benefits embodied within the component part will flow to CPPI and its cost can be measured reliably. The carrying amount of the replaced component is removed.

Amortization is recognized in net income on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, as set out in the table below. Land is not amortized. The majority of CPPI's amortization expense for property, plant and equipment is recognized in manufacturing and product costs.

Amortization methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date. The following rates have been applied to CPPI's capital assets:

Buildings, roads and paving	10 to 40 years
Pulp and paper machinery and equipment	8 to 20 years
Mobile equipment	4 years
Office furniture and equipment	10 years
Major overhauls	1 to 5 years

Intangible assets

Computer software

Software development costs relate to major software systems purchased or developed by the Company. These costs are amortized on a straight-line basis over periods ranging from five to ten years.

Government assistance

Government assistance relating to the acquisition of property, plant and equipment is recorded as a reduction of the cost of the asset to which it relates, with any amortization calculated on the net amount. Government grants related to income are recognized as income or a reimbursement of costs on a systematic basis over the periods necessary to match them with the related costs which they were intended to compensate.

Asset impairment

CPPI's property, plant and equipment, ROU assets and intangible assets are assessed at each reporting date to determine whether there are any indications of impairment, and an impairment test is performed whenever events or circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized in net income at the amount the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of cash inflows from other assets or groups of assets (cash-generating unit or "CGU").

Non-financial assets, for which impairment was recorded in a prior period, are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset cannot exceed the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized in prior years.

Employee future benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity makes contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee future benefits expense when they are earned.

For hourly employees covered by forest industry union defined contribution or benefit plans, the consolidated statement of income is charged with CPPI's contributions required under the collective agreements.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. CPPI, in participation with Canfor, has defined benefit plans that provide both pension and other non-pension post-retirement benefits to certain salaried employees, and certain hourly employees not covered by forest industry union plans. The other non-pension post-retirement benefits include certain health care benefits and pension bridging benefits to eligible retired employees.

The surplus and/or obligation recognized in the consolidated balance sheet in respect of a defined benefit pension plan is the net of the accrued benefit obligation and the fair value of the plan assets. The accrued benefit obligation, the related service cost and, where applicable, the past service cost is determined separately for each defined benefit pension plan based on actuarial determinations. The accrued benefit obligation is calculated as the present value of each member's prospective benefits earned in respect of credited service prior to the valuation date and the related service cost is calculated as the present value of the benefits the member is assumed to earn for credited service in the ensuing year. The actuarial assumptions used in these calculations, such as salary escalation and health care inflation, are based upon best estimates selected by CPPI. The discount rate assumptions are based on the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of CPPI's obligations.

Actuarial gains and losses can arise from differences between actual and expected outcomes or changes in the actuarial assumptions or legislated amounts payable. Actuarial gains and losses, including the return on plan assets, are recognized in other comprehensive income in the period in which they occur.

Provisions

CPPI recognizes a provision if, as a result of a past event, it has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision recorded is management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The expense arising from the unwinding of the discount due to the passage of time is recorded as a finance expense. The main class of provision recognized by CPPI is as follows:

Asset retirement obligations

CPPI recognizes a liability for asset retirement obligations in the period in which they are incurred. The site restoration costs are capitalized as part of the cost of the related item of property, plant and equipment and amortized on a basis consistent with the expected useful life of the related asset. Asset retirement obligations are discounted at the risk-free rate in effect at the balance sheet date.

Revenue recognition

CPPI's revenues are derived from the sale of pulp, paper and energy. Revenue is measured based on the consideration specified in a contract with a customer, net of applicable sales taxes, returns, rebates and discounts and after eliminating sales within the Company. Revenue for pulp and paper is recognized when control of products is transferred to customers. Energy revenue is recognized at month-end based on energy produced and transferred to the customer under the terms and conditions of electricity purchase and load displacement agreements.

The timing of transfer of control to customers varies depending on the individual terms of the contract of sale, but is typically at the time pulp and paper is loaded onto a truck or rail carrier, upon vessel departure, upon delivery, as the goods are used by the customer, or when pulp and paper has been picked up by the buyer at a designated transfer point at the Company's mill or warehouse. The amount of revenue recognized is adjusted for commissions, volume rebates and discounts at the point in time control is transferred.

Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by CPPI are reported as a component of freight and other distribution costs.

Income taxes

Income tax expense comprises current and deferred taxes. Current and deferred taxes are recognized in net income except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

CPPI recognizes deferred income tax in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at tax rates expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Investment tax credits are credited to manufacturing and product costs in the period in which it becomes reasonably assured that the Company is entitled to them. Unused investment tax credits are recorded as other current or long-term assets in the Company's consolidated balance sheet, depending upon when the benefit is expected to be received.

Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The majority of CPPI's sales are denominated in foreign currencies, principally the US-dollar. Transactions in foreign currencies are translated to the functional currency at exchange rates on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate on that date. Foreign currency differences arising on translation are recognized in net income.

The assets and liabilities of foreign operations are translated to the Canadian dollar at exchange rates on the reporting date. The income and expenses of foreign operations are translated to the Canadian dollar at exchange rates on the transaction dates. Foreign exchange differences arising from translation of foreign operations are recognized in other comprehensive income.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. Segment results reported to the chief operating decision-maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-bearing liabilities, head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets.

4. Inventories

(millions of Canadian dollars)	As at December 31, 2020	As at December 31, 2019
Pulp	\$ 55.4	\$ 72.8
Paper	20.9	29.7
Wood chips and logs	57.2	35.9
Materials and supplies	55.0	55.3
	\$ 188.5	\$ 193.7

The above inventory balances are stated at the lower of cost and net realizable value. For the year ended December 31, 2020, an \$8.5 million net inventory write-down recovery was recognized (December 31, 2019 – \$10.7 million write-down expense), resulting in an inventory provision for finished pulp and raw materials of \$2.2 million at December 31, 2020 (December 31, 2019 – \$10.7 million).

Inventory expensed in 2020 and 2019 is included in manufacturing and product costs and amortization.

5. Property, Plant and Equipment and Intangible Assets

(millions of Canadian dollars)	Land and improvements	Buildings, machinery and equipment	Other property, plant and equipment ²	Construction in progress	Intangible assets	Total property, plant and equipment and intangible assets
Cost						
Balance at January 1, 2019	\$ 5.4	\$ 1,634.3	\$ 58.6	\$ 17.8	\$ 28.7	\$ 1,744.8
Additions ¹	-	-	0.5	89.1	5.5	95.1
Disposals	-	(9.9)	(17.6)	-	-	(27.5)
Transfers	-	38.5	21.4	(59.9)	-	-
Balance at December 31, 2019	\$ 5.4	\$ 1,662.9	\$ 62.9	\$ 47.0	\$ 34.2	\$ 1,812.4
Additions ¹	0.1	-	2.1	92.7	0.5	95.4
Disposals	-	(4.6)	(19.2)	-	-	(23.8)
Transfers	-	71.8	32.2	(104.0)	-	-
Balance at December 31, 2020	\$ 5.5	\$ 1,730.1	\$ 78.0	\$ 35.7	\$ 34.7	\$ 1,884.0
Amortization						
Balance at January 1, 2019	\$ -	\$ (1,143.1)	\$ (19.4)	\$ -	\$ (4.1)	\$ (1,166.6)
Amortization for the year	-	(60.0)	(27.4)	-	(4.2)	(91.6)
Disposals	-	9.0	17.6	-	-	26.6
Balance at December 31, 2019	\$ -	\$ (1,194.1)	\$ (29.2)	\$ -	\$ (8.3)	\$ (1,231.6)
Amortization for the year	-	(55.3)	(20.0)	-	(5.9)	(81.2)
Disposals	-	4.1	19.2	-	-	23.3
Balance at December 31, 2020	\$ -	\$ (1,245.3)	\$ (30.0)	\$ -	\$ (14.2)	\$ (1,289.5)
Carrying Amounts						
At January 1, 2019	\$ 5.4	\$ 491.2	\$ 39.2	\$ 17.8	\$ 24.6	\$ 578.2
At December 31, 2019	\$ 5.4	\$ 468.8	\$ 33.7	\$ 47.0	\$ 25.9	\$ 580.8
At December 31, 2020	\$ 5.5	\$ 484.8	\$ 48.0	\$ 35.7	\$ 20.5	\$ 594.5

¹ Net of capital expenditures financed by government grants.

² Other property, plant and equipment is comprised of major overhauls and capitalized landfill retirement costs.

6. Leases

(a) Right-of-Use Assets

(millions of Canadian dollars)		Land	Machinery and equipment	Other facilities and equipment	Total
Cost					
Balance at January 1, 2019	\$	0.1	\$ 5.5	\$ 1.4	\$ 7.0
Additions		-	0.3	0.2	0.5
Balance at December 31, 2019	\$	0.1	\$ 5.8	\$ 1.6	\$ 7.5
Additions		-	0.2	0.3	0.5
Balance at December 31, 2020	\$	0.1	\$ 6.0	\$ 1.9	\$ 8.0
Amortization					
Balance at January 1, 2019	\$	-	\$ (2.7)	\$ (1.0)	\$ (3.7)
Amortization for the year		-	(0.9)	(0.4)	(1.3)
Balance at December 31, 2019	\$	-	\$ (3.6)	\$ (1.4)	\$ (5.0)
Amortization for the year		-	(0.7)	(0.3)	(1.0)
Balance at December 31, 2020	\$	-	\$ (4.3)	\$ (1.7)	\$ (6.0)
Carrying Amounts					
At January 1, 2019	\$	0.1	\$ 2.8	\$ 0.4	\$ 3.3
At December 31, 2019	\$	0.1	\$ 2.2	\$ 0.2	\$ 2.5
At December 31, 2020	\$	0.1	\$ 1.7	\$ 0.2	\$ 2.0

(b) Lease Obligations

Contractual undiscounted cash flows associated with the Company's lease obligations are as follows:

(millions of Canadian dollars)		As at December 31, 2020	As at December 31, 2019
Within one year	\$	1.1	1.1
Between one and five years		1.3	2.0
Beyond five years		0.2	0.2
Total undiscounted lease obligations	\$	2.6	3.3

Interest expense on lease obligations for 2020 was \$0.1 million (2019 – \$0.1 million) and is included in finance expense, net.

Operating lease expenses relating to short-term and low-value leases not included in the measurement of lease obligations for 2020 were \$0.6 million (2019 – \$0.6 million).

Total cash outflows for leases in 2020 were \$1.5 million, including \$0.6 million for short-term and low-value leases, as well as variable lease expenses (2019 – \$1.7 million and \$0.6 million, respectively).

7. Accounts Payable and Accrued Liabilities

(millions of Canadian dollars)		As at December 31, 2020	As at December 31, 2019
Trade payables and accrued liabilities	\$	122.9	108.4
Accrued payroll and related liabilities		38.7	33.8
	\$	161.6	142.2

8. Operating Loan

(millions of Canadian dollars)	As at December 31, 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

On September 30, 2019, the maturity date of the Company's operating loan facility was extended from April 6, 2022 to April 6, 2023.

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 December 31, 2020, the Company was fully in compliance with all covenants relating to its operating loan facility.

9. Term Debt

On September 30, 2019, the Company entered into a new non-revolving term loan for \$50.0 million. 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. The term loan covenants are consistent with the Company's existing operating loan facility.

As at December 31, 2020, the Company was fully in compliance with all covenants relating to its term debt.

Fair value of total term debt

At December 31, 2020, the fair value of the Company's term debt approximates its amortized cost of \$50.0 million (December 31, 2019 – \$50.0 million).

10. Employee Future Benefits

The Company, in participation with Canfor, has several funded and unfunded defined benefit pension plans, defined contribution plans, and other non-pension post-retirement benefit plans that provide benefits to substantially all salaried employees and certain hourly employees. The defined benefit pension plans are based on years of service and final average salary. CPPI's other non-pension post-retirement benefit plans are non-contributory and include a range of health care and other benefits.

Total cash payments for employee future benefits for 2020 were \$13.8 million (December 31, 2019 – \$15.9 million), consisting of cash contributed by CPPI to its funded pension plans, cash payments directly to beneficiaries for its unfunded other non-pension post-retirement benefit plans, and cash contributed to its defined contribution and other plans.

Defined benefit plans

CPPI measures its accrued retirement benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

As at December 31, 2020, CPPI has one registered defined benefit pension plan for which an actuarial funding valuation is performed at least every three years. This registered pension plan underwent an actuarial valuation for funding purposes as of December 31, 2019, which was completed in 2020. The next actuarial valuation for funding purposes is currently scheduled for December 31, 2022, to be completed in 2023. The remaining non-registered pension plans also underwent actuarial valuations as of December 31, 2019, which were completed in 2020. In addition, CPPI has other non-contributory benefit plans that provide certain non-pension post-retirement benefits to its members. The actuarial valuations for the non-pension post-retirement benefit plans were conducted as of December 31, 2020.

Information about CPPI's defined benefit plans, in aggregate, is as follows:

Fair market value of plan assets	2020		2019	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
(millions of Canadian dollars)				
Beginning of year	\$ 143.3	\$ -	\$ 126.7	\$ -
Interest income on plan assets	4.3	-	4.6	-
Return on plan assets greater than discount rate	3.2	-	12.8	-
Employer contributions	2.4	0.9	3.7	1.7
Employee contributions	0.1	-	0.1	-
Benefit payments	(4.3)	(0.9)	(4.5)	(1.7)
Administration costs	(0.1)	-	(0.1)	-
End of year	\$ 148.9	\$ -	\$ 143.3	\$ -

Plan assets consist of the following:	As at December 31, 2020	As at December 31, 2019
	Percentage of Plan Assets	
Asset category		
Equity securities	28%	16%
Debt securities	17%	28%
Annuities	55%	56%
	100%	100%

Accrued benefit obligations	2020		2019	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
(millions of Canadian dollars)				
Beginning of year	\$ 174.3	\$ 35.5	\$ 155.7	\$ 49.2
Current service cost	2.8	0.8	2.6	0.8
Interest cost	5.2	1.0	5.5	1.5
Employee contributions	0.1	-	0.1	-
Benefit payments	(4.3)	(0.9)	(4.5)	(1.7)
Actuarial gain – elimination of MSP	-	-	-	(18.9)
Actuarial loss (gain)	3.0	(0.8)	14.9	4.6
Other	-	0.3	-	-
End of year	\$ 181.1	\$ 35.9	\$ 174.3	\$ 35.5

Of the defined benefit pension plan obligation of \$181.1 million (December 31, 2019 – \$174.3 million), \$164.0 million (December 31, 2019 – \$157.5 million) relates to plans that are wholly or partly funded and \$17.1 million (December 31, 2019 – \$16.8 million) relates to plans that are wholly unfunded, with letters of credit securing \$6.0 million (December 31, 2019 – \$6.0 million) of the unfunded liability. The total obligation for the non-pension post-retirement benefit plans of \$35.9 million (December 31, 2019 – \$35.5 million) is unfunded.

Annuity contracts

In 2019 and 2020, no buy-in annuities were purchased by the Company. As at December 31, 2020, the plan holds \$81.3 million of buy-in annuities purchased prior to 2019. Future cash flows from the annuities will match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations.

Medical Services Plan changes

On May 15, 2019, *Bill 20 – Medicare Protection Amendment Act, 2019* (“Bill 20”), received Royal Assent. Bill 20 eliminated Medical Services Plan (“MSP”) premiums effective January 1, 2020. This change was recognized in actuarial financial assumptions in the second quarter of 2019 and resulted in an \$18.9 million pre-tax reduction of the non-pension post-retirement benefit obligation and a corresponding gain recognized through other comprehensive income.

Reconciliation of funded status of defined benefit plans to amounts recorded in the consolidated financial statements

(millions of Canadian dollars)	2020		2019	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
Fair market value of plan assets	\$ 148.9	\$ -	\$ 143.3	\$ -
Accrued benefit obligations	(181.1)	(35.9)	(174.3)	(35.5)
Funded status of plans – deficit	(32.2)	(35.9)	(31.0)	(35.5)
Other pension plans	(2.3)	-	(2.1)	-
Total accrued benefit liability, net	\$ (34.5)	\$ (35.9)	\$ (33.1)	\$ (35.5)

Components of pension cost

The following table shows the before tax impact on net loss and other comprehensive income of the Company’s defined benefit pension and other non-pension post-retirement benefit plans:

(millions of Canadian dollars)	2020		2019	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
Recognized in net loss				
Current service cost	\$ 2.8	\$ 0.8	\$ 2.6	\$ 0.8
Administration cost	0.1	-	0.1	-
Interest cost	0.9	1.0	0.9	1.5
Other	-	0.3	-	-
Total expense included in net loss	\$ 3.8	\$ 2.1	\$ 3.6	\$ 2.3
Recognized in other comprehensive income				
Actuarial loss (gain) – experience	\$ (3.6)	\$ 0.5	\$ 2.1	\$ (0.1)
Actuarial gain – demographic assumptions	-	(0.3)	-	-
Actuarial loss (gain) – financial assumptions	6.6	(1.0)	12.8	4.7
Actuarial gain – elimination of MSP	-	-	-	(18.9)
Return on plan assets greater than discount rate	(3.2)	-	(12.8)	-
Total loss (gain) in other comprehensive income	\$ (0.2)	\$ (0.8)	\$ 2.1	\$ (14.3)

Significant assumptions

The actuarial assumptions used in measuring CPPI’s benefit plan provisions and benefit costs are as follows:

	December 31, 2020		December 31, 2019	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
Discount rate	2.7%	2.7%	3.0%	3.0%
Rate of compensation increases	3.0%	n/a	3.0%	n/a
Initial medical cost trend rate	n/a	5.0%	n/a	5.5%
Ultimate medical cost trend rate	n/a	4.5%	n/a	4.5%
Year ultimate rate is reached	n/a	2025	n/a	2022

In addition to the significant assumptions listed in the table above, the average life expectancy of a 65-year-old at December 31, 2020 is between 21.2 years and 24.3 years (December 31, 2019 – 21.1 years and 24.2 years). As at December 31, 2020, the weighted average duration of the defined benefit plan obligation, which reflects the average age of the plan members, is 13.4 years (December 31, 2019 – 12.8 years). The weighted average duration of the other benefit plans is 13.0 years (December 31, 2019 – 13.7 years).

Sensitivity analysis

Assumed discount rates and medical cost trend rates have a significant effect on the accrued retirement benefit obligation and related plan assets. A one percentage point change in these assumptions would have the following effects on the accrued retirement benefit obligation, including the impact of plan annuity assets, for 2020:

(millions of Canadian dollars)	1% Increase	1% Decrease
Defined benefit pension plan liabilities, net of annuity assets		
Discount rate	\$ (12.5)	\$ 15.6
Other benefit plan liabilities		
Discount rate	\$ (4.7)	\$ 5.8
Initial medical cost trend rate	\$ 1.7	\$ (1.9)

When taking into account the impact of annuities, 45% (December 31, 2019 – 46%) of the change to the defined benefit pension plans is fully offset against changes in discount rates and longevity risk (potential increases in life expectancy of plan members) through buy-in annuities, and a further 23% (December 31, 2019 – 23%) is partially hedged through the plan's investment in debt securities.

As at December 31, 2020, estimated contribution payments of \$2.7 million will be made to the Company's defined benefit pension plans in 2021 based on the last actuarial valuation for funding purposes.

Defined contribution and other plans

The total expense recognized in 2020 for CPPI's defined contribution plans was \$2.8 million (December 31, 2019 – \$2.9 million).

CPPI contributes to a pulp industry pension plan providing pension benefits. This plan is accounted for as a defined contribution plan. Contributions to this plan, not included in the expense for the defined contribution plan above, amounted to \$7.7 million in 2020 (December 31, 2019 – \$7.6 million).

11. Asset Retirement Obligations

The following table provides a reconciliation of the asset retirement obligations as at December 31, 2020 and December 31, 2019:

(millions of Canadian dollars)	2020	2019
Asset retirement obligations at beginning of year	\$ 6.6	\$ 6.0
Accretion expense	0.1	0.1
Changes in estimates	2.0	0.5
Asset retirement obligation at end of year	\$ 8.7	\$ 6.6

CPPI's asset retirement obligations represent estimated undiscounted future payments of \$10.7 million to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur at periods ranging from 2 to 31 years and have been discounted at risk-free rates ranging from 0.2% to 1.2% (December 31, 2019 – 1.7% to 1.8%).

CPPI has certain assets that have indeterminable retirement dates and, therefore, there is an indeterminate settlement date for the related asset retirement obligations. As a result, no asset retirement obligations are recorded for these assets. These assets include wastewater and effluent ponds that will have to be drained once the related operating facility is closed and storage sites for which removal of chemicals, fuels and other related materials will be required once the related operating facility is closed. When the retirement dates of these assets become determinable and an estimate can be made, an asset retirement obligation will be recorded.

It is possible that changes in future conditions could require a material change in the recognized amount of the asset retirement obligations. The asset retirement obligations balance is included in 'Other long-term provisions' on the consolidated balance sheet.

12. Share Capital

Authorized

Unlimited number of common shares, no par value.

Issued and fully paid

(millions of Canadian dollars, except number of shares)	2020		2019	
	Number of Shares	Amount	Number of Shares	Amount
Common shares at beginning of year	65,233,559	\$ 480.8	65,250,759	\$ 480.9
Common shares purchased	-	-	(17,200)	(0.1)
Common shares at end of year ³	65,233,559	\$ 480.8	65,233,559	\$ 480.8

³Based on trade date.

The holders of common shares are entitled to vote at all meetings of shareholders of the Company and are entitled to receive dividends when declared. Dividends were suspended for the foreseeable future in the first quarter of 2020 due to challenging market conditions.

Basic net loss per common share is calculated by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The weighted average number of common shares outstanding for 2020 is 65,233,559 (December 31, 2019 – 65,243,435), and reflects common shares purchased under the Company's normal course issuer bid.

Normal course issuer bid

On March 6, 2020, the Company's normal course issuer bid expired and was not renewed.

In 2020, the Company did not purchase any common shares (December 31, 2019 – 17,200 common shares purchased at an average price of \$10.67 per common share).

As at December 31, 2020 and February 24, 2021, there were 65,233,559 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8% (December 31, 2019 – 54.8%).

13. Finance Expense, Net

(millions of Canadian dollars)	2020	2019
Interest expense on borrowings	\$ (3.4)	\$ (3.9)
Interest expense on retirement benefit obligations, net	(1.9)	(2.4)
Interest income	0.3	0.1
Other finance expenses	(0.2)	(0.4)
Finance expense, net	\$ (5.2)	\$ (6.6)

14. Income Taxes

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

(millions of Canadian dollars)	2020	2019
Current	\$ 25.3	\$ 18.7
Deferred	(17.1)	(7.6)
Income tax recovery	\$ 8.2	\$ 11.1

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

(millions of Canadian dollars)	2020	2019
Income tax recovery at statutory rate of 27% (2019 – 27.0%)	\$ 8.3	\$ 11.2
Deduct:		
Entities with different income tax rates and other tax adjustments	(0.1)	-
Permanent difference from capital gains and other non-deductible items	-	(0.1)
Income tax recovery	\$ 8.2	\$ 11.1

In addition, a tax expense of \$0.3 million related to actuarial gains, net, on the Company's defined benefit plans was recorded in other comprehensive income for the year ended December 31, 2020 (December 31, 2019 – expense of \$3.3 million).

The tax effects of the significant components of temporary differences that give rise to deferred income tax assets and liabilities are as follows:

(millions of Canadian dollars)	As at December 31, 2020	As at December 31, 2019
Deferred income tax assets		
Retirement benefit obligations	\$ 18.4	\$ 18.0
Other	4.7	4.3
	\$ 23.1	\$ 22.3
Deferred income tax liabilities		
Depreciable capital assets	\$ (117.4)	\$ (99.2)
Other	(0.8)	(0.8)
	(118.2)	(100.0)
Total deferred income taxes, net	\$ (95.1)	\$ (77.7)

15. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)	2020	2019
Accounts receivable	\$ 6.8	\$ 28.1
Inventories	5.2	13.4
Prepaid expenses and other	(1.4)	(2.9)
Accounts payable and accrued liabilities	1.2	(30.9)
Net change in non-cash working capital	\$ 11.8	\$ 7.7

16. Related Party Transactions

CPPI undertakes transactions with various related entities. These transactions are in the normal course of business, except where noted otherwise.

In 2020, the Company depended on Canfor to provide approximately 68% (December 31, 2019 – 70%) 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. In 2018, the Company and Canfor entered into a new pricing agreement, which included a market-based chip pricing formula. The new pricing agreement was effective July 1, 2018, for a three-year term, to June 30, 2021.

The Company purchased wood chips, logs and hog fuel from Canfor sawmills in the amount of \$232.5 million in 2020 (December 31, 2019 – \$234.8 million).

Canfor provides certain business and administrative services to CPPI under a services agreement. The total amount charged for the services provided by Canfor in 2020 was \$18.4 million (December 31, 2019 – \$16.3 million). This amount is included in 'Manufacturing and product costs' and 'Selling and administration costs.'

CPPI provides certain business and administrative services to Canfor under an incidental services agreement. The total amount charged for the services provided to Canfor in 2020 was \$4.0 million (December 31, 2019 – \$3.5 million). This amount is included as a cost recovery in 'Manufacturing and product costs' and 'Selling and administration costs.' At December 31, 2020, an outstanding balance of \$16.7 million (December 31, 2019 – \$19.3 million) was due to Canfor.

The Jim Pattison Group is Canfor's largest shareholder with an ownership interest of 50.9% at December 31, 2020 (December 31, 2019 – 50.9%). During 2020, CPPI sold paper to subsidiaries owned by The Jim Pattison Group totaling \$3.0 million (December 31, 2019 – \$3.7 million). CPPI also made purchases from subsidiaries owned by The Jim Pattison Group totaling \$0.7 million (December 31, 2019 – \$0.7 million). No amounts related to these sales and purchases were outstanding as at December 31, 2020 (December 31, 2019 – nominal).

During 2020 and 2019, Canfor also made contributions to certain post-employment benefit plans for the benefit of CPPI employees (see Note 10, 'Employee Future Benefits,' for further details) and provided services to its joint venture with Licella Fibre Fuels Pty Ltd.

Key management personnel

Key management includes members of the Board of Directors and the senior executive management team. The compensation expense for key management for services is as follows:

(millions of Canadian dollars)	2020		2019	
Short-term benefits	\$	1.7	\$	1.3
Post-employment benefits		0.5		-
	\$	2.2	\$	1.3

Short-term benefits for members of the Board of Directors include an annual retainer as well as attendance fees.

17. Segment Information

The Company has two reportable segments, pulp and paper, which operate as separate business units and represent separate product lines. The following summary describes the operations of each of the Company's reportable segments:

- *Pulp* – Includes purchase of residual fibre, and production and sale of pulp products, including NBSK pulp and BCTMP as well as energy revenues; and
- *Paper* – Includes production and sale of paper products, including bleached, unbleached and coloured paper.

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. The accounting policies of the reportable segments are described in Note 3.

The Company's interest-bearing liabilities are not considered to be segment liabilities, but rather, are managed centrally by the treasury function. Other liabilities are not split by segment for the purposes of allocating resources and assessing performance.

(millions of Canadian dollars)	Pulp		Paper		Unallocated		Elimination Adjustment	Total
Year ended December 31, 2020								
Sales from contracts with customers	\$	827.9	\$	162.6	\$	-	\$	-
Sales to other segments		74.4		-		-	(74.4)	-
Operating income (loss)		(70.4)		24.0		(9.7)	-	(56.1)
Amortization		79.2		2.9		0.1	-	82.2
Capital expenditures⁴		71.3		1.4		0.6	-	73.3
Identifiable assets		814.7		63.8		42.3	-	920.8
Year ended December 31, 2019								
Sales from contracts with customers	\$	918.9	\$	168.4	\$	0.6	\$	-
Sales to other segments		88.9		-		-	(88.9)	-
Operating income (loss)		(43.9)		22.9		(10.0)	-	(31.0)
Amortization		89.3		3.5		0.1	-	92.9
Capital expenditures ⁴		96.4		5.1		1.5	-	103.0
Identifiable assets		809.1		66.3		45.4	-	920.8

⁴ 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. The following table presents sales based on geographical locations of CPPI's customers:

(millions of Canadian dollars)	2020		2019	
Sales by location of customer				
Canada	8%	\$ 79.0	8%	\$ 82.5
Asia	60%	596.4	54%	585.9
United States	25%	246.0	29%	317.6
Europe	4%	37.6	4%	46.0
Other	3%	31.5	5%	55.9
	100%	\$ 990.5	100%	\$ 1,087.9

In 2020, one customer in the pulp segment accounted for 13% of the Company's total sales (December 31, 2019 – no single customer accounted for greater than 10% of the Company's total sales).

18. Commitments and Contingencies

At December 31, 2020, CPPI has contractual commitments for \$44.5 million (December 31, 2019 – \$63.9 million). The majority of these commitments are expected to be settled between one and four years. In addition, CPPI has committed to leases of property, plant and equipment as outlined under Note 6.

In the ordinary course of its business activities, the Company may be subject to, or enter into, legal actions and claims with customers, unions, suppliers or others.

In circumstances where the Company is not able to determine the outcome of a legal action and claim, no amount is recognized in the consolidated financial statements, with an amount accrued only when a reliable estimate of the obligation can be made. Although there can be no assurance as to the disposition of a legal action and claim, it is the opinion of the Company's management, based upon the information available at this time, that the expected outcome of a legal action and claim, individually or in aggregate, is unlikely to have a material adverse effect on the operating results and financial condition of the Company as a whole.

(a) Energy Agreements

The Company has energy purchase agreements with a BC energy company (the "Energy Agreements") for all three of the Company's kraft mills. Two of these agreements are for the sale of incremental electrical energy and the third agreement is for load displacement. One of these Energy Agreements included incentive funding from a BC energy company to support capital investments for the new turbo generator. All agreements include performance guarantees to ensure minimum contractual amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, the Company has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2020 the Company had posted \$2.2 million of standby letters of credit (December 31, 2019 – \$2.5 million) under these agreements and had no repayment obligations under the terms of any of these agreements.

(b) 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 coronavirus ("COVID-19") pandemic.

As a result of material revenue declines incurred by the Company in the second half of 2020 stemming from COVID-19 (see Note 19 for further details), a CEWS of \$12.9 million has been recognized in 2020 as an offset to wage expense (\$12.8 million against 'Manufacturing and product costs' and \$0.1 million against 'Selling and administration costs') on the Company's consolidated statement of income (loss). As at December 31, 2020, a receivable of \$8.6 million has been recognized for claims under the CEWS program, included in 'Accounts receivable – Other' on the Company's consolidated balance sheet.

(c) Insurance Proceeds

During 2020, the Company received insurance proceeds of \$32.8 million related to Northwood pulp mill's number five recovery boiler ("RB5") outage in 2018, included as a component of 'Other income (expense), net' on the consolidated statement of income (loss).

Subsequent to year end, the Company received additional insurance proceeds of \$8.3 million related to the RB5 outage in 2018. These proceeds will be recognized in the consolidated statement of income (loss) for the year ending December 31, 2021.

19. Risks and Uncertainties

Financial risk management

CPPI is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market risk.

CPPI's internal Risk Management Committee manages risk in accordance with a Board approved Price Risk Management Controls Policy. This policy provides the framework for risk management related to commodity price, foreign exchange, interest rate and counterparty credit risk of the Company.

Credit risk:

Credit risk is the risk of financial loss to CPPI if a counterparty to a financial instrument fails to meet its contractual obligations.

Financial instruments that are subject to credit risk include cash and cash equivalents, trade and other accounts receivable. Contract assets are also subject to credit risk. Cash and cash equivalents includes cash held through major Canadian and international financial institutions as well as temporary investments with an original maturity date, or redemption date, of three months or less. The cash and cash equivalents balance at December 31, 2020 is \$6.8 million (December 31, 2019 – \$6.0 million).

CPPI utilizes credit insurance to mitigate the risk associated with some of its trade accounts receivables. As at December 31, 2020, approximately 72% (December 31, 2019 – 77%) of the outstanding trade accounts receivables are covered by credit insurance. In addition, CPPI requires letters of credit on certain export trade accounts receivables and regularly discounts these letters of credit without recourse. CPPI recognizes the sale of the letters of credit on the settlement date, and accordingly reduces the related trade accounts receivable balance. CPPI's trade accounts receivable balance at December 31, 2020 is \$65.3 million, before a loss allowance of \$1.0 million (December 31, 2019 – \$81.5 million and \$1.0 million, respectively). At December 31, 2020, approximately 99% (December 31, 2019 – 99%) of the trade accounts receivable balance are within CPPI's established credit terms.

Liquidity risk:

Liquidity risk is the risk that CPPI will be unable to meet its financial obligations as they come due. The Company manages liquidity risk through regular cash flow forecasting in conjunction with an adequate operating loan facility and term debt.

At December 31, 2020, CPPI had cash and cash equivalents of \$6.8 million (December 31, 2019 – \$6.0 million), with \$97.1 million (December 31, 2019 - \$82.8 million) available and undrawn on its operating loan facility. As a result, at December 31, 2020, the Company had available liquidity of \$103.9 million (December 31, 2019 - \$88.8 million), accounts payable and accrued liabilities of \$161.6 million (December 31, 2019 – \$142.2 million), and term debt of \$50.0 million (December 31, 2019 – \$50.0 million).

Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates, foreign currency, commodity and energy prices.

(i) Interest rate risk:

CPPI is exposed to interest rate risk through its current financial assets, operating loan facility and term debt which bear variable interest rates. CPPI may use interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates.

(ii) *Currency risk:*

CPPI is exposed to foreign exchange risk primarily related to the US-dollar, as CPPI products are sold globally with prices primarily denominated in US-dollars or linked to prices quoted in US-dollars with certain expenditures transacted in US-dollars. In addition, the Company holds financial assets and liabilities in US-dollars. These primarily include US-dollar bank accounts, investments and trade accounts.

An increase (decrease) in the value of the Canadian dollar by US\$0.01 would result in a pre-tax loss (gain) of approximately \$0.4 million in relation to working capital balances denominated in US-dollars at year end (including cash, accounts receivable and accounts payable). A portion of the currency risk associated with US-dollar denominated sales is naturally offset by US-dollar denominated expenses. A portion of the remaining exposure is sometimes covered by foreign exchange collar contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US-dollars.

(iii) *Commodity price risk:*

CPPI's financial performance is dependent on the selling price of its products and the purchase price of raw material inputs. Consequently, CPPI is exposed to changes in commodity prices for pulp and paper, as well as changes in fibre, freight, chemical and energy prices. The markets for pulp and paper are cyclical and are influenced by a variety of factors. These factors include periods of excess supply due to industry capacity additions, periods of decreased demand due to weak global economic activity, inventory destocking by customers and fluctuations in currency exchange rates. During periods of low prices, CPPI is subject to reduced revenues and margins, which adversely impact profitability.

From time to time, CPPI enters into futures contracts on commodity exchanges for pulp. Under the Company's Price Risk Management Controls Policy, up to 1% of pulp sales may be sold in this way. CPPI is also exposed to commodity price risk on the sale of electricity in Canada. Prices are set by third party regulatory bodies.

(iv) *Energy price risk:*

CPPI is exposed to energy price risk relating to purchases of natural gas and diesel oil for use in its operations. The annual exposure is, from time to time, hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of eighteen months.

At December 31, 2020 and December 31, 2019, the Company had no fixed interest rate swaps, foreign exchange contracts, pulp futures, energy fixed swaps or option contracts outstanding.

Capital management

CPPI's objectives when managing capital are to maintain a strong balance sheet and a globally competitive cost structure that ensures adequate liquidity to maintain and develop the business through the commodity price cycle.

CPPI's capital is comprised of net debt and shareholders' equity:

(millions of Canadian dollars)	As at December 31, 2020	As at December 31, 2019
Total debt (including operating loan)	\$ 50.0	\$ 64.0
Less: Cash and cash equivalents	(6.8)	(6.0)
Net debt	\$ 43.2	\$ 58.0
Total equity	532.5	558.3
	\$ 575.7	\$ 616.3

The Company manages its capital structure through rigorous planning, budgeting and forecasting processes, and ongoing management of operations, investments and capital expenditures. In 2020, to meet CPPI's operating, growth and return on invested capital objectives, the Company's management of capital was comprised primarily of investment in the Company's operations and cost reduction initiatives. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Coronavirus outbreak

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. Due to a shortage of economically viable fibre in the region caused by COVID-19's impact on sawmill operating rates, the

Company's Northwood pulp mill was curtailed for three weeks in the second quarter of 2020, and the Prince George pulp and paper and Intercontinental pulp mills were curtailed for four weeks in the third quarter of 2020. In addition to these measures, the Company received a CEWS (Note 18(b)) from the Government of Canada under its program to support eligible employers who experienced a meaningful reduction in revenue.

Apart from the aforementioned downtime, as an essential service, the Company has continued to operate, albeit with some minor disruptions, increased safety protocols and additional cleaning and sanitizing activities. The Company continues to closely monitor the impacts of COVID-19 and should the duration, spread or intensity of the pandemic further develop, the supply chain, market pricing and customer demand could be further affected. These factors could impact the Company's operating plan, liquidity, cash flows, and the valuation of long-lived assets.

20. Financial Instruments

CPPI's cash and cash equivalents, trade and other accounts receivables, operating loan, term debt and accounts payable and accrued liabilities are classified as measured at amortized cost in accordance with IFRS 9, *Financial Instruments*. The carrying amounts of these instruments, excluding term debt, approximate fair value at December 31, 2020.

When applicable, derivative instruments are classified as measured at FVTPL. IFRS 13, *Fair Value Measurement*, requires classification of these items within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

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

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

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

At times, the Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, energy costs and interest rates. As at December 31, 2020 and December 31, 2019, the Company had no derivative financial instruments outstanding.

ADDITIONAL INFORMATION

DIRECTORS AND OFFICERS

DIRECTORS

The name and municipality, province and country of residence of the Directors of the Company and their principal occupations as at December 31, 2020 are as below. For more information visit www.canfor.com.

Stan Bracken-Horrocks, FCPA, FCA⁽¹⁾⁽³⁾
Corporate Director
Kelowna, British Columbia, Canada

John Baird⁽³⁾⁽⁴⁾⁽⁵⁾
Senior Advisor
Bennett Jones LLP
Toronto, Ontario, Canada

Donald Kayne
Chief Executive Officer
Canfor Pulp Products Inc.
Tsawwassen, British Columbia, Canada

William Stinson⁽¹⁾⁽²⁾⁽⁵⁾
Chairman and Chief Executive Officer
Westshore Terminals Investment Corporation
Vancouver, British Columbia, Canada

Conrad Pinette
Chairman
Canfor Pulp Products Inc.
Vancouver, British Columbia, Canada

Dieter Jentsch⁽¹⁾
Senior Advisor
Corporate Director
King City, Ontario, Canada

OFFICERS

The name and municipality, province and country of residence of the executive officers of the Company and the offices held by them as at December 31, 2020 are as below. For more information visit www.canfor.com.

David Calabrigo, Q.C.
Corporate Secretary
Vancouver, British Columbia, Canada

Alan Nicholl
Chief Financial Officer and Executive Vice
President, Finance and Canfor Pulp Operations
West Vancouver, British Columbia, Canada

Conrad Pinette
Chairman
Vancouver, British Columbia, Canada

Donald Kayne
Chief Executive Officer
Tsawwassen, British Columbia, Canada

Brian Yuen
Vice President, Pulp and Paper
Sales and Marketing
Vancouver, British Columbia, Canada

Kevin Anderson
Vice President, Operations and Innovation
Prince George, British Columbia, Canada

(1) Member of the Audit Committee, which reviews the Company's financial statements, the scope and results of the external auditor's work, the adequacy of internal accounting and audit programs and compliance with accounting and reporting standards.

(2) Member of the Joint Management Resources and Compensation Committee, which oversees compensation policies approved by the Board and makes recommendations to the Board regarding executive compensation.

(3) Member of the Joint Corporate Governance Committee, which ensures that the Company through its Board of Directors sustains an effective approach to corporate governance.

(4) Member of the Joint Environmental, Health and Safety Committee, which develops, reviews and makes recommendations on matters related to the Company's environmental, health and safety policies, and monitors compliance with those policies and with government regulation.

(5) Member of the Joint Capital Expenditure Committee, which reviews proposed capital expenditures.

The term of office of each Director expires on the date of the next Annual General Meeting of the Company.

CANFOR PULP INNOVATION

Canfor Pulp Innovation ("CPI") was established and charged with a "search and apply" mandate for technology which determined that we adopt an Open Innovation approach to Canfor Pulp's R&D investment. Located in a purpose built facility in Burnaby, CPI is unique in Canada, right-sized and ultra-responsive to Canfor Pulp's customers and mills.

CPI operates under 4 strategic themes: cost reduction, strength & quality, tissue, and new products. Delivering an annual program comprising of approximately twenty projects, CPI's Open Innovation delivery model comprises of 4 levels: CPI staff; contracted industry leading expertise; and partnerships and technical contracts.

Sponsored research with an international suite of collaborators is now delivering new opportunities from our growing intellectual property portfolio. CPI is delivering opportunities for continuous customer and mill improvements contributed to ensuring that Canfor Pulp remains a global quality and technology leader in NBSK pulp.

CORPORATE AND SHAREHOLDER INFORMATION

Annual General Meeting

The Annual General Meeting of Canfor Pulp Products Inc. will be held at Canfor Head Office at #100 – 1700 West 75th Avenue Vancouver, BC, V6P 6G2, on Thursday, April 29, 2021 at 11:30 a.m.

Auditors

KPMG LLP
Vancouver, BC

Transfer Agent and Registrar

AST Trust Company (Canada)
1600 - 1066 W. Hastings St.
Vancouver, BC V6E 3X1

Stock Listing

Toronto Stock Exchange
Symbol: CFX

CPPI also produces an Annual Information Form. To obtain this publication or more information about the Company, please contact Canfor Pulp Products Inc. or visit our website at <http://canfor.com/investor-relations>.

Investor Contact

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