

News Release

Canfor Pulp Products Inc.

FOR IMMEDIATE RELEASE

October 22, 2020

CANFOR PULP REPORTS RESULTS FOR THIRD QUARTER OF 2020

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

Overview

- Third quarter of 2020 reported operating loss of \$28 million; net loss of \$18 million, or \$0.28 per share
- Strong balance sheet maintained, net debt to capitalization of 3.4% at September 30, 2020

Financial Results

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

| (millions of Canadian dollars, except per share amounts) | Q3 2020 | Q2 2020 | YTD 2020 | Q3 2019 | YTD 2019 |
|---|------------|------------|-------------|------------|-------------|
| Sales | \$ 226.4 | \$ 250.7 | \$ 752.7 | \$ 216.9 | \$ 840.4 |
| Reported operating income (loss) before amortization | \$ (8.7) | \$ 13.3 | \$ 32.3 | \$ (20.3) | \$ 61.8 |
| Reported operating loss | \$ (27.6) | \$ (6.3) | \$ (27.8) | \$ (44.0) | \$ (7.5) |
| Adjusted operating income (loss) before amortization ¹ | \$ (11.7) | \$ 21.5 | \$ 26.8 | \$ (20.3) | \$ 75.5 |
| Adjusted operating income (loss) ¹ | \$ (30.6) | \$ 1.9 | \$ (33.3) | \$ (44.0) | \$ 6.2 |
| Net loss | \$ (18.1) | \$ (1.1) | \$ (12.2) | \$ (32.4) | \$ (11.0) |
| Net loss per share, basic and diluted | \$ (0.28) | \$ (0.02) | \$ (0.19) | \$ (0.50) | \$ (0.17) |

¹ Adjusted for inventory write-downs and recoveries (\$3.0 million net recovery in Q3 2020; \$8.2 million net write-down in Q2 2020).

The Company reported an operating loss of \$27.6 million for the third quarter of 2020, compared to an operating loss of \$6.3 million reported for the second quarter of 2020. After adjusting for a \$3.0 million recovery in its inventory write-down provision, the Company's operating loss was \$30.6 million for the third quarter of 2020, \$32.5 million unfavourable compared to similarly adjusted results for the second quarter of 2020.

The Company's operating results for the third quarter of 2020 reflected weak global pulp market conditions as well as significant fibre-related and previously deferred scheduled maintenance downtime, stemming from the ongoing impact of the coronavirus ("COVID-19") outbreak, combined with a 3 cent, or 4%, stronger Canadian dollar. The significant effect of COVID-19 on lumber sawmill operating rates in the British Columbia ("BC") Interior in the previous quarter materially impacted residual fibre supply to the Company's Prince George ("PG") based operations heading into the current quarter, resulting in a four-week curtailment at the Company's Intercontinental Northern Bleached Softwood Kraft ("NBSK") pulp mill and PG NBSK pulp and paper mill in July.

Global pulp market conditions were weak during the current quarter, with the ongoing sharp decline in demand for printing and writing papers offsetting improved demand for tissue products. Global softwood pulp producer inventories at the end of August 2020 remained significantly above the balanced range at 43 days of supply, an increase of one day supply compared to June 2020.

NBSK pulp list prices to China averaged US\$572 per tonne, broadly in line with the prior quarter, while average US-dollar NBSK pulp list prices to North America at US\$1,133 per tonne (before discounts, which were largely unchanged quarter-over-quarter), were down US\$25 per tonne or 2%, reflecting softer demand in that region. As a result of the weak markets, the 4% stronger Canadian dollar and the timing of shipments (versus orders) in the previous quarter, the Company's NBSK pulp unit sales realizations experienced a moderate decrease compared to the prior quarter. Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") demand fell sharply during the third quarter with average BCTMP unit sales realizations well down compared to the prior quarter, reflecting a significant decline in average US-dollar prices combined with the stronger Canadian dollar.

Energy revenues were broadly in line with the prior quarter, as decreased energy generation due to reduced production, was offset by slightly higher energy prices.

Pulp production was 227,000 tonnes for the third quarter of 2020, down 33,000 tonnes, or 13%, from the previous quarter, primarily reflecting the quarter-over-quarter impact of downtime. In the current quarter, decreased operating days primarily reflected the aforementioned curtailment, which reduced pulp production by 38,000 tonnes. This was combined with a scheduled maintenance outage at the Company's Taylor BCTMP mill, which reduced pulp production by 10,000 tonnes, and, to a lesser extent, several operational issues at the Company's PG pulp mill. In September, the Company's Northwood NBSK pulp mill ("Northwood") commenced its scheduled maintenance outage, which was completed on one production line in early October; this outage reduced pulp production by 20,000 tonnes in the current quarter and by a further 15,000 tonnes in October 2020. In the second quarter of 2020, the Company's pulp production was impacted by a three-week COVID-19 related curtailment at Northwood, which reduced pulp production by 35,000 tonnes.

During Northwood's scheduled outage, the mill's recovery boiler number one ("RB1") was assessed by Management to be in stable condition. Regarding the mill's recovery boiler number five ("RB5"), the previously announced capital upgrades to the upper furnace are ongoing and progressing well. In mid-October, Management made the decision to extend the outage on RB5 to enable the replacement of the lower furnace, in order to ensure the safe and reliable operation of the boiler. The estimated capital cost of the lower furnace upgrade is \$30 million, with the work anticipated to take between 70-80 days during the fourth quarter on one production line, which will reduce NBSK pulp production by 60,000 to 70,000 tonnes. This lower furnace replacement, in conjunction with the upper furnace upgrades, is projected to ensure RB5's continued operation for another 15 to 20 years. In light of the assessments made by Management with regards to RB1 and RB5, the previously considered option of a new "super" recovery boiler ("RB6"), at an estimated cost of \$400 million, will now not be required.

Pulp shipments were in line with the previous quarter, as the 13% decrease in pulp production was offset by a drawdown of inventory in the current quarter during the downtime.

Pulp unit manufacturing costs were moderately higher than the prior quarter primarily reflecting reduced production in the current quarter. Fibre costs showed a slight decline over the same period, largely driven by lower market-based prices for sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) in the current quarter.

Operating income in the Company's paper segment was \$5.0 million, down \$2.4 million from the previous quarter, principally due to reduced paper production and shipments as a result of the aforementioned curtailment. This was offset in part by slightly higher paper unit sales realizations and marginally lower paper unit manufacturing costs in the current quarter. The latter was due to moderately lower slush pulp costs largely driven by decreased Canadian dollar NBSK pulp unit sales realizations.

Looking forward, the Company anticipates global softwood pulp demand to show a slight improvement in the fourth quarter of 2020, as markets continue to recover from the economic impact of COVID-19 and elevated inventory levels slowly begin to normalize following the seasonally slower summer months. The Company's results in the fourth quarter of 2020 will reflect the continuation of Northwood's scheduled maintenance into early October, as well as the aforementioned capital-related outage on one production line at Northwood (with the second production line continuing to operate over this period), combined with higher associated maintenance costs and lower shipment volumes.

Bleached kraft paper markets are anticipated to soften somewhat through the balance of 2020, particularly in North America, following seasonally higher summer demand. Offshore bleached kraft paper markets are anticipated to be relatively stable over the fourth quarter of 2020.

Commenting on the Company's third quarter results, CPPI's Chief Executive Officer, Don Kayne said, "We are extremely proud of the exceptional efforts of our teams to execute on our strategy to ensure a safe work environment, including a strong focus on COVID-19 safety procedures and protocols. Our pulp business continues to be challenged with global oversupply of product and tepid demand, but market conditions appear to be slowly improving, with various market price forecasts for 2021 guiding to a modest recovery of prices."

Additional Information and Conference Call

A conference call to discuss the third quarter's financial and operating results will be held on Friday, October 23, 2020 at 8:00 AM Pacific time. To participate in the call, please dial Toll-Free 1-888-390-0546. For instant replay access until November 6, 2020, please dial Toll-Free 1-888-390-0541 and enter participant pass code 851086#. The conference call will be webcast live and will be available at www.canfor.com. This news release, the attached financial statements and a presentation used during the conference call can be accessed via the Company's website at <http://www.canfor.com/investor-relations/webcasts>.

Non-IFRS Measures and Forward Looking Statements

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

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

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

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

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

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at October 22, 2020.

Forward Looking Statements

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

THIRD QUARTER 2020 OVERVIEW

Selected Financial Information and Statistics

| (millions of Canadian dollars, except ratios) | Q3 2020 | Q2 2020 | YTD 2020 | Q3 2019 | YTD 2019 |
|---|------------------|------------|------------------|------------|-------------|
| Operating income (loss) by segment: | | | | | |
| Pulp | \$ (29.3) | \$ (12.0) | \$ (40.2) | \$ (45.5) | \$ (17.1) |
| Paper | \$ 5.0 | \$ 7.4 | \$ 19.2 | \$ 3.9 | \$ 17.9 |
| Unallocated | \$ (3.3) | \$ (1.7) | \$ (6.8) | \$ (2.4) | \$ (8.3) |
| Total operating loss | \$ (27.6) | \$ (6.3) | \$ (27.8) | \$ (44.0) | \$ (7.5) |
| Add: Amortization ¹ | \$ 18.9 | \$ 19.6 | \$ 60.1 | \$ 23.7 | \$ 69.3 |
| Total operating income (loss) before amortization | \$ (8.7) | \$ 13.3 | \$ 32.3 | \$ (20.3) | \$ 61.8 |
| Add (deduct): | | | | | |
| Working capital movements | \$ (12.4) | \$ 42.8 | \$ 7.8 | \$ 22.2 | \$ 1.5 |
| Defined benefit plan contributions, net | \$ (0.3) | \$ (1.0) | \$ (2.7) | \$ (1.5) | \$ (4.0) |
| Income taxes received (paid) | \$ (0.2) | - | \$ 29.1 | \$ (0.1) | \$ (4.5) |
| Other operating cash flows, net | \$ 5.2 | \$ 6.8 | \$ 18.5 | \$ 1.0 | \$ (0.6) |
| Cash from (used in) operating activities | \$ (16.4) | \$ 61.9 | \$ 85.0 | \$ 1.3 | \$ 54.2 |
| Add (deduct): | | | | | |
| Capital additions, net | \$ (8.1) | \$ (12.2) | \$ (39.1) | \$ (26.0) | \$ (75.9) |
| Dividends paid | \$ - | \$ - | \$ (4.1) | \$ (4.1) | \$ (12.3) |
| Proceeds from long-term debt | \$ - | \$ - | \$ - | \$ 50.0 | \$ 50.0 |
| Other, net | \$ (0.7) | \$ (0.7) | \$ (3.0) | \$ (1.4) | \$ (3.5) |
| Change in cash / operating loans | \$ (25.2) | \$ 49.0 | \$ 38.8 | \$ 19.8 | \$ 12.5 |
| ROIC – Consolidated period-to-date ² | (3.1)% | 0.4% | (1.7)% | (5.7)% | (1.0)% |
| Average exchange rate (US\$ per C\$1.00)³ | \$ 0.751 | \$ 0.722 | \$ 0.739 | \$ 0.757 | 0.752 |

¹ Amortization includes amortization of certain capitalized major maintenance costs.

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

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

The Company reported an operating loss of \$27.6 million for the third quarter of 2020, compared to an operating loss of \$6.3 million reported for the second quarter of 2020. After adjusting for a \$3.0 million recovery in its inventory write-down provision, the Company's operating loss was \$30.6 million for the third quarter of 2020, \$32.5 million unfavourable compared to similarly adjusted results for the second quarter of 2020.

The Company's operating results for the third quarter of 2020 reflected weak global pulp market conditions as well as significant fibre-related and previously deferred scheduled maintenance downtime, stemming from the ongoing impact of the coronavirus ("COVID-19") outbreak, combined with a 3 cent, or 4%, stronger Canadian dollar. The significant effect of COVID-19 on lumber sawmill operating rates in the British Columbia ("BC") Interior in the previous quarter materially impacted residual fibre supply to the Company's Prince George ("PG") based operations heading into the current quarter, resulting in a four-week curtailment at the Company's Intercontinental Northern Bleached Softwood Kraft ("NBSK") pulp mill and PG NBSK pulp and paper mill in July.

Compared to the third quarter of 2019, operating results in the current quarter were \$16.4 million favourable, with higher pulp production volumes combined with lower pulp and paper unit costs and a 1 cent, or 1%, weaker Canadian dollar, more than offsetting lower average NBSK pulp unit sales realizations.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

| (millions of Canadian dollars, unless otherwise noted) | Q3 2020 | Q2 2020 | YTD 2020 | Q3 2019 | YTD 2019 |
|---|------------|------------|-------------|------------|-------------|
| Sales | \$ 191.9 | \$ 205.8 | \$ 630.8 | \$ 179.8 | \$ 705.8 |
| Operating income (loss) before amortization ⁴ | \$ (11.2) | \$ 6.9 | \$ 17.7 | \$ (22.8) | \$ 49.4 |
| Operating loss | \$ (29.3) | \$ (12.0) | \$ (40.2) | \$ (45.5) | \$ (17.1) |
| Inventory write-downs (recovery) | \$ (3.0) | \$ 8.2 | \$ (5.5) | \$ - | \$ 13.7 |
| Adjusted operating loss | \$ (32.3) | \$ (3.8) | \$ (45.7) | \$ (45.5) | \$ (3.4) |
| Average NBSK pulp price delivered to China – US\$ ^{5,6} | \$ 572 | \$ 572 | \$ 572 | \$ 555 | \$ 628 |
| Average NBSK pulp price delivered to China – Cdn\$ ^{5,6} | \$ 761 | \$ 793 | \$ 774 | \$ 733 | \$ 836 |
| Production – pulp (000 mt) | 227 | 260 | 785 | 174 | 748 |
| Shipments – pulp (000 mt) | 249 | 248 | 787 | 213 | 760 |

⁴ Amortization includes amortization of certain capitalized major maintenance costs.

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

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

Markets

Global pulp market conditions were weak during the current quarter, with the ongoing sharp decline in demand for printing and writing papers offsetting improved demand for tissue products. The average US-dollar NBSK pulp list price to China for the third quarter of 2020 was US\$572 per tonne, broadly in line with the second quarter of 2020, and up US\$17 per tonne, or 3%, compared to the third quarter of 2019. Prices to other global regions, including North America and Europe, experienced modest pressure compared to the prior quarter, with the average US-dollar NBSK pulp list price to North America at US\$1,133 per tonne (before discounts, which were largely unchanged quarter-over-quarter), down US\$25 per tonne, or 2%, from the previous quarter, and down US\$37 per tonne, or 3%, from the third quarter of 2019.

Global softwood pulp producer inventories at the end of August 2020 remained significantly above the balanced range at 43⁷ days of supply, an increase of one day supply compared to June 2020 (market conditions are generally considered balanced when inventories are in the 27-34 days of supply range).

Sales

The Company's pulp shipments for the third quarter of 2020 were 249,000 tonnes, broadly in line with the previous quarter and up 36,000 tonnes, or 17%, from the third quarter of 2019. Pulp shipments in the current quarter largely reflected the 13% decrease in pulp production offset by a drawdown of inventory in the current period. Vessel slippages at the end of the current quarter into October, were comparable with slippages at the prior quarter into July. Compared to the third quarter of 2019, the increase in pulp shipments was largely driven by a 30% increase in pulp production, offset in part by vessel slippages (17,000 tonnes) at the end of September into early October 2020.

The Company's NBSK pulp unit sales realizations experienced a moderate decrease compared to the prior quarter, as a result of the weak markets, the 4% stronger Canadian dollar and the timing of shipments (versus orders) in the previous quarter. Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") demand fell sharply during the third quarter with average BCTMP unit sales realizations well down compared to the prior quarter, reflecting a significant decline in average US-dollar prices combined with the stronger Canadian dollar.

Compared to the third quarter of 2019, average NBSK pulp unit sales realizations showed a slight decrease, as a 3% increase in US-dollar NBSK pulp list prices to China was more than offset by a 3% decrease in US-dollar prices to North America and a change in the Company's geographical sales mix. Average BCTMP unit sales realizations were broadly in line with the comparative period.

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

Energy revenues were broadly in line with the prior quarter, as decreased energy generation due to the aforementioned curtailments, was offset by slightly higher energy prices. Compared to the third quarter of 2019, marginally lower energy revenues primarily reflected a decline in power sales quarter-over-quarter.

Operations

Pulp production was 227,000 tonnes for the third quarter of 2020, down 33,000 tonnes, or 13%, from the previous quarter, primarily reflecting the quarter-over-quarter impact of downtime. In the current quarter, decreased operating days primarily reflected the four-week COVID-19 related curtailment at the Company's PG and Intercontinental pulp mills, which reduced pulp production by 38,000 tonnes. This was combined with a scheduled maintenance outage at the Company's Taylor BCTMP mill, which reduced pulp production by 10,000 tonnes, and, to a lesser extent, several operational issues at the Company's PG pulp mill. In September, the Company's Northwood NBSK pulp mill ("Northwood") commenced its scheduled maintenance outage, which was completed on one production line in early October; this outage reduced pulp production by 20,000 tonnes in the current quarter and by a further 15,000 tonnes in October 2020. In the second quarter of 2020, the Company's pulp production was impacted by a three-week COVID-19 related curtailment at Northwood, which reduced pulp production by 35,000 tonnes.

During Northwood's scheduled outage, the mill's recovery boiler number one ("RB1") was assessed by Management to be in stable condition. Regarding the mill's recovery boiler number five ("RB5"), the previously announced capital upgrades to the upper furnace are ongoing and progressing well. In mid-October, Management made the decision to extend the outage on RB5 to enable the replacement of the lower furnace, in order to ensure the safe and reliable operation of the boiler. The estimated capital cost of the lower furnace upgrade is \$30 million, with the work anticipated to take between 70-80 days during the fourth quarter on one production line, which will reduce NBSK pulp production by 60,000 to 70,000 tonnes. This lower furnace replacement, in conjunction with the upper furnace upgrades, is projected to ensure RB5's continued operation for another 15 to 20 years. In light of the assessments made by Management with regards to RB1 and RB5, the previously considered option of a new "super" recovery boiler ("RB6"), at an estimated cost of \$400 million, will now not be required.

Compared to the third quarter of 2019, pulp production was up 53,000 tonnes, or 30%, primarily driven by reduced downtime in the current quarter. In the comparative period, production curtailments at all the Company's pulp mills reduced pulp production by 135,000 tonnes.

Pulp unit manufacturing costs were moderately higher than the prior quarter primarily reflecting reduced production in the current quarter. Fibre costs showed a slight decline over the same period, largely driven by lower market-based prices for sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) in the current quarter. Compared to the third quarter of 2019, pulp unit manufacturing costs were reasonably lower, primarily due to increased production combined with lower maintenance spend in the current quarter. Fibre costs were broadly in line with the comparative period.

Paper

Selected Financial Information and Statistics – Paper

| (millions of Canadian dollars unless otherwise noted) | Q3 2020 | Q2 2020 | YTD 2020 | Q3 2019 | YTD 2019 |
|---|------------|------------|-------------|------------|-------------|
| Sales | \$ 34.5 | \$ 44.9 | \$ 121.9 | \$ 37.1 | \$ 134.2 |
| Operating income before amortization ⁸ | \$ 5.7 | \$ 8.1 | \$ 21.3 | \$ 4.8 | \$ 20.6 |
| Operating income | \$ 5.0 | \$ 7.4 | \$ 19.2 | \$ 3.9 | \$ 17.9 |
| Production – paper (000 mt) | 24 | 33 | 87 | 28 | 99 |
| Shipments – paper (000 mt) | 27 | 36 | 97 | 27 | 93 |

⁸ Amortization includes amortization of certain capitalized major maintenance costs.

Markets

Global kraft paper market demand was steady through most of the third quarter of 2020, especially North America.

Sales

The Company's paper shipments in the third quarter of 2020 were 27,000 tonnes, down 9,000 tonnes from the prior quarter and broadly in line with the third quarter of 2019. The former, largely due to decreased paper production in the current quarter.

Paper unit sales realizations in the third quarter of 2020 were slightly higher than the previous quarter, principally reflecting solid US-dollar pricing in North America, offset in part by the stronger Canadian dollar. Compared to the third quarter of 2019, paper unit sales realizations were significantly lower primarily due to a notable decline in global US-dollar prices quarter-over-quarter, offset in part by the weaker Canadian dollar.

Operations

Paper production for the third quarter of 2020 was 24,000 tonnes, down 9,000 tonnes from the previous quarter, principally reflecting PG pulp and paper mill's aforementioned COVID-19 related curtailment in the current quarter. Compared to the third quarter of 2019, paper production declined 4,000 tonnes primarily due to the quarter-over-quarter impact of downtime in both periods.

Paper unit manufacturing costs were slightly lower than the second quarter of 2020, largely due to moderately lower slush pulp costs (tied to decreased Canadian dollar NBSK pulp unit sales realizations), offset in part by the impact of decreased production in the current quarter. Compared to the third quarter of 2019, paper unit manufacturing costs were modestly lower, primarily reflecting lower slush pulp costs combined with reduced spend on operating supplies and maintenance in the current period.

Unallocated Items

Selected Financial Information

| (millions of Canadian dollars) | Q3 2020 | Q2 2020 | YTD 2020 | Q3 2019 | YTD 2019 |
|--------------------------------|------------|------------|-------------|------------|-------------|
| Corporate costs | \$ (3.3) | \$ (1.7) | \$ (6.8) | \$ (2.4) | \$ (8.3) |
| Finance expense, net | \$ (1.1) | \$ (1.3) | \$ (4.0) | \$ (1.6) | \$ (5.0) |
| Other income (expense), net | \$ 4.0 | \$ 6.2 | \$ 15.1 | \$ 1.2 | \$ (2.5) |

Corporate costs were \$3.3 million for the third quarter of 2020, up \$1.6 million from the previous quarter and up \$0.9 million from the third quarter of 2019, largely reflecting increased head office and general administrative expenses in the current period.

Net finance expense for the third quarter of 2020, at \$1.1 million, was down \$0.2 million and \$0.5 million from the second quarter of 2020 and the third quarter of 2019, respectively. The decrease in finance expense compared to the second quarter of 2020 principally related to a lower interest expense associated with the Company's term loan and lower financing fees associated with letters of credit. Compared to the third quarter of 2019, the decrease in finance expense primarily reflected lower financing fees associated with letters of credit and lower employee future benefit interest costs.

Other income, net, of \$4.0 million in the third quarter of 2020 primarily reflected interim insurance proceeds of \$5.2 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 its number five recovery boiler ("RB5"), rectifying damage discovered during routine preventative maintenance inspections.

Other Comprehensive Income (Loss)

In the third quarter of 2020, the Company recorded a loss of \$4.2 million (before tax) related to changes in the valuation of the Company's employee future benefit plans, 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. This compared to a loss of \$6.5 million (before tax) in the second quarter of 2020, largely reflecting a 0.7% 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 third quarter of 2019, the Company recorded a gain of \$1.0 million (before tax), primarily reflecting a higher than anticipated return on plan assets, and to a lesser extent, lower service and interest

costs associated with the 50% reduction in Medical Services Plan ("MSP") premiums realized in the second quarter of 2019, following a change in legislation in BC.

SUMMARY OF FINANCIAL POSITION

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

| (millions of Canadian dollars, except for ratios) | Q3 2020 | Q2 2020 | YTD 2020 | Q3 2019 | YTD 2019 |
|---|------------|------------|-------------|------------|-------------|
| Increase (decrease) in cash and cash equivalents | \$ (25.2) | \$ 38.0 | \$ 24.8 | \$ 19.8 | \$ 12.5 |
| Operating activities | \$ (16.4) | \$ 61.9 | \$ 85.0 | \$ 1.3 | \$ 54.2 |
| Financing activities | \$ (0.9) | \$ (11.8) | \$ (21.5) | \$ 44.3 | \$ 34.0 |
| Investing activities | \$ (7.9) | \$ (12.1) | \$ (38.7) | \$ (25.8) | \$ (75.7) |
| Ratio of current assets to current liabilities | | | 2.4 : 1 | | 2.3 : 1 |
| Net debt to capitalization ⁹ | | | 3.4% | | 5.0% |
| ROIC – Consolidated period-to-date | (3.1)% | 0.4% | (1.7)% | (5.7)% | (1.0)% |

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

Operating Activities

Cash used from operating activities in the third quarter of 2020 was \$16.4 million, compared to cash generated of \$61.9 million in the second quarter of 2020 and \$1.3 million in the third quarter of 2019. The \$78.3 million decrease in operating cash flows compared to the second quarter of 2020 was largely due to an increase in wood chip and log inventories during the curtailments, combined with lower cash earnings in the current period. Compared to the third quarter of 2019, the \$17.7 million decrease in operating cash flows was principally driven by a timing-related decrease in accounts payable and accrued liabilities, offset in part by lower operating losses quarter-over-quarter.

Financing Activities

Cash used for financing activities in the third quarter of 2020 was \$0.9 million compared to \$11.8 million in the second quarter of 2020 and cash generated of \$44.3 million in the third 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 second quarter of 2020 principally related to an \$11.0 million repayment of the Company's principal operating loan facility. Cash generated from financing activities in the third quarter of 2019 largely consisted of the receipt of a \$50.0 million term loan on September 30, 2019, partially offset by a quarterly dividend of \$4.1 million (\$0.0625 per common share).

Investing Activities

Cash used for investing activities of \$7.9 million in the current quarter reflected ongoing reduced capital spending, and was mainly comprised of the continuing construction of a raw water treatment plant at the Company's Intercontinental NBSK pulp mill (scheduled to be completed by the end of 2020) as well as maintenance-of-business capital.

Liquidity and Financial Requirements

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

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

At September 30, 2020, the Company had net debt of \$19.2 million and available liquidity of \$127.9 million.

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

Dividends

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

OUTLOOK

Pulp and Paper Markets

Looking forward, the Company anticipates global softwood pulp demand to show a slight improvement in the fourth quarter of 2020, as markets continue to recover from the economic impact of COVID-19 and elevated inventory levels slowly begin to normalize following the seasonally slower summer months. The Company's results in the fourth quarter of 2020 will reflect the continuation of Northwood's scheduled maintenance into early October, as well as the aforementioned capital-related outage on one production line at Northwood (with the second production line continuing to operate over this period), combined with higher associated maintenance costs and lower shipment volumes.

Bleached kraft paper markets are anticipated to soften somewhat through the balance of 2020, particularly in North America, following seasonally higher summer demand. Offshore bleached kraft paper markets are anticipated to be relatively stable over the fourth quarter of 2020.

OUTSTANDING SHARES

As at September 30, 2020 and October 22, 2020, there were 65,233,559 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%.

CRITICAL ACCOUNTING ESTIMATES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

RISKS AND UNCERTAINTIES

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

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

Coronavirus (COVID-19)

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. 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, impacting the Company's operating plan, liquidity, cash flows, and the valuation of its long-lived assets.

Significant health and safety measures continue to be in place at Canfor Pulp's offices, facilities and work sites, grounded in the recommendations of public health officials. These include restricting all travel, mandating self-isolation for returned travellers and any employees exhibiting symptoms or exposed to the virus, implementing physical distancing parameters between individuals, increasing cleaning and sanitization in workplaces, and where

possible, instructing employees to work remotely to reduce interpersonal contact. The pulp and paper sector has been declared an essential service in BC.

SELECTED QUARTERLY FINANCIAL INFORMATION

| | Q3 2020 | Q2 2020 | Q1 2020 | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 | Q4 2018 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Sales and income (loss) (millions of Canadian dollars) | | | | | | | | |
| Sales | | | | | | | | |
| Sales | \$ 226.4 | \$ 250.7 | \$ 275.6 | \$ 247.5 | \$ 216.9 | \$ 319.5 | \$ 304.0 | \$ 289.7 |
| Operating income (loss) before amortization | \$ (8.7) | \$ 13.3 | \$ 27.7 | \$ 0.1 | \$ (20.3) | \$ 41.7 | \$ 40.4 | \$ 36.1 |
| Operating income (loss) | \$ (27.6) | \$ (6.3) | \$ 6.1 | \$ (23.5) | \$ (44.0) | \$ 18.4 | \$ 18.1 | \$ 15.6 |
| Net income (loss) | \$ (18.1) | \$ (1.1) | \$ 7.0 | \$ (19.5) | \$ (32.4) | \$ 10.6 | \$ 10.8 | \$ 14.2 |
| Per common share (Canadian dollars) | | | | | | | | |
| Net income (loss) – basic and diluted | \$ (0.28) | \$ (0.02) | \$ 0.11 | \$ (0.30) | \$ (0.50) | \$ 0.16 | \$ 0.17 | \$ 0.21 |
| Book value ¹⁰ | \$ 8.25 | \$ 8.57 | \$ 8.66 | \$ 8.56 | \$ 8.92 | \$ 9.47 | \$ 9.21 | \$ 9.14 |
| Dividends declared | \$ - | \$ - | \$ - | \$ 0.0625 | \$ 0.0625 | \$ 0.0625 | \$ 0.0625 | \$ 0.0625 |
| Statistics | | | | | | | | |
| Pulp shipments (000 mt) | 249 | 248 | 290 | 267 | 213 | 288 | 259 | 231 |
| Paper shipments (000 mt) | 27 | 36 | 34 | 26 | 27 | 33 | 33 | 32 |
| Average exchange rate – US\$/Cdn\$ | \$ 0.751 | \$ 0.722 | \$ 0.744 | \$ 0.758 | \$ 0.757 | \$ 0.748 | \$ 0.752 | \$ 0.758 |
| Average NBSK pulp list price delivered to China (US\$) ¹¹ | \$ 572 | \$ 572 | \$ 573 | \$ 563 | \$ 555 | \$ 630 | \$ 700 | \$ 803 |

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

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

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

| (millions of Canadian dollars, unaudited) | As at September 30, 2020 | As at December 31, 2019 |
|--|---|--|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 30.8 | \$ 6.0 |
| Accounts receivable - Trade | 52.4 | 80.5 |
| - Other (Note 10) | 13.1 | 6.6 |
| Income taxes receivable | 10.9 | 29.7 |
| Inventories (Note 2) | 199.1 | 193.7 |
| Prepaid expenses and other | 15.2 | 14.8 |
| Total current assets | 321.5 | 331.3 |
| Property, plant and equipment and intangible assets | 564.4 | 580.8 |
| Right-of-use assets | 2.1 | 2.5 |
| Other long-term assets | 4.0 | 6.2 |
| Total assets | \$ 892.0 | \$ 920.8 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 135.5 | \$ 142.2 |
| Operating loan (Note 3(a)) | - | 14.0 |
| Current portion of lease obligations | 1.0 | 1.0 |
| Total current liabilities | 136.5 | 157.2 |
| Term debt (Note 3(b)) | 50.0 | 50.0 |
| Lease obligations | 1.5 | 1.9 |
| Retirement benefit obligations (Note 4) | 75.6 | 68.6 |
| Other long-term provisions | 8.2 | 7.1 |
| Deferred income taxes, net | 82.1 | 77.7 |
| Total liabilities | \$ 353.9 | \$ 362.5 |
| EQUITY | | |
| Share capital | \$ 480.8 | \$ 480.8 |
| Retained earnings | 57.3 | 77.5 |
| Total equity | \$ 538.1 | \$ 558.3 |
| Total liabilities and equity | \$ 892.0 | \$ 920.8 |

Commitments and Contingencies (Note 10) and **Subsequent Event** (Note 11)

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

APPROVED BY THE BOARD

"S.E. Bracken-Horrocks"

Director, S.E. Bracken-Horrocks

"C.A. Pinette"

Director, C.A. Pinette

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

| (millions of Canadian dollars, except per share data, unaudited) | 3 months ended September 30, | | 9 months ended September 30, | |
|--|------------------------------|-------------|------------------------------|-------------|
| | 2020 | 2019 | 2020 | 2019 |
| Sales | \$ 226.4 | \$ 216.9 | \$ 752.7 | \$ 840.4 |
| Costs and expenses | | | | |
| Manufacturing and product costs | 195.4 | 199.4 | 597.5 | 648.4 |
| Freight and other distribution costs | 33.0 | 32.0 | 105.7 | 109.3 |
| Amortization | 18.9 | 23.7 | 60.1 | 69.3 |
| Selling and administration costs | 6.7 | 5.8 | 17.2 | 20.9 |
| | 254.0 | 260.9 | 780.5 | 847.9 |
| Operating loss | (27.6) | (44.0) | (27.8) | (7.5) |
| Finance expense, net | (1.1) | (1.6) | (4.0) | (5.0) |
| Other income (expense), net (Note 10) | 4.0 | 1.2 | 15.1 | (2.5) |
| Net loss before income taxes | (24.7) | (44.4) | (16.7) | (15.0) |
| Income tax recovery (Note 5) | 6.6 | 12.0 | 4.5 | 4.0 |
| Net loss | \$ (18.1) | \$ (32.4) | \$ (12.2) | \$ (11.0) |
| Net loss per common share: (in Canadian dollars) | | | | |
| Attributable to equity shareholders of the Company | | | | |
| - Basic and diluted (Note 6) | \$ (0.28) | \$ (0.50) | \$ (0.19) | \$ (0.17) |

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

Canfor Pulp Products Inc.

Condensed Consolidated Statements of Other Comprehensive Income (Loss)

| | 3 months ended September 30, | | 9 months ended September 30, | |
|---|------------------------------|-----------|------------------------------|-----------|
| (millions of Canadian dollars, unaudited) | 2020 | 2019 | 2020 | 2019 |
| Net loss | \$ (18.1) | \$ (32.4) | \$ (12.2) | \$ (11.0) |
| Other comprehensive income (loss) | | | | |
| Items that will not be recycled through net income (loss): | | | | |
| Defined benefit plan actuarial gains (losses) (Note 4) | (4.2) | 1.0 | (5.4) | 12.1 |
| Income tax recovery (expense) on defined benefit plan actuarial losses/gains (Note 5) | 1.2 | (0.3) | 1.5 | (3.3) |
| Other comprehensive income (loss), net of tax | (3.0) | 0.7 | (3.9) | 8.8 |
| Total comprehensive loss | \$ (21.1) | \$ (31.7) | \$ (16.1) | \$ (2.2) |

Condensed Consolidated Statements of Changes in Equity

| | 3 months ended September 30, | | 9 months ended September 30, | |
|---|------------------------------|----------|------------------------------|----------|
| (millions of Canadian dollars, unaudited) | 2020 | 2019 | 2020 | 2019 |
| Share capital | | | | |
| Balance at beginning of period | \$ 480.8 | \$ 480.9 | \$ 480.8 | \$ 480.9 |
| Share purchases | - | (0.1) | - | (0.1) |
| Balance at end of period | \$ 480.8 | \$ 480.8 | \$ 480.8 | \$ 480.8 |
| Retained earnings | | | | |
| Balance at beginning of period | \$ 78.4 | \$ 136.9 | \$ 77.5 | \$ 115.7 |
| Net loss | (18.1) | (32.4) | (12.2) | (11.0) |
| Defined benefit plan actuarial gains (losses), net of tax | (3.0) | 0.7 | (3.9) | 8.8 |
| Dividends declared | - | (4.1) | (4.1) | (12.3) |
| Impact of change in lease accounting policy | - | - | - | (0.1) |
| Share purchases | - | (0.1) | - | (0.1) |
| Balance at end of period | \$ 57.3 | \$ 101.0 | \$ 57.3 | \$ 101.0 |
| Total equity | \$ 538.1 | \$ 581.8 | \$ 538.1 | \$ 581.8 |

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

| | 3 months ended September 30, 9 months ended September 30, | | | |
|---|---|-----------|------------------|-----------|
| (millions of Canadian dollars, unaudited) | 2020 | 2019 | 2020 | 2019 |
| Cash generated from (used in): | | | | |
| Operating activities | | | | |
| Net loss | \$ (18.1) | \$ (32.4) | \$ (12.2) | \$ (11.0) |
| Items not affecting cash: | | | | |
| Amortization | 18.9 | 23.7 | 60.1 | 69.3 |
| Income tax recovery (Note 5) | (6.6) | (12.0) | (4.5) | (4.0) |
| Employee future benefits expense | 0.9 | 0.9 | 2.8 | 2.8 |
| Finance expense, net | 1.1 | 1.6 | 4.0 | 5.0 |
| Other, net | 0.3 | (1.1) | 0.6 | (0.9) |
| Defined benefit plan contributions, net | (0.3) | (1.5) | (2.7) | (4.0) |
| Income taxes received (paid), net | (0.2) | (0.1) | 29.1 | (4.5) |
| | (4.0) | (20.9) | 77.2 | 52.7 |
| Net change in non-cash working capital (Note 7) | (12.4) | 22.2 | 7.8 | 1.5 |
| | (16.4) | 1.3 | 85.0 | 54.2 |
| Financing activities | | | | |
| Payment of lease obligations | (0.2) | (0.4) | (0.6) | (0.8) |
| Change in operating loan (Note 3(a)) | - | - | (14.0) | - |
| Proceeds from long-term debt (Note 3(b)) | - | 50.0 | - | 50.0 |
| Finance expenses paid | (0.7) | (1.0) | (2.8) | (2.7) |
| Dividends paid | - | (4.1) | (4.1) | (12.3) |
| Share purchases | - | (0.2) | - | (0.2) |
| | (0.9) | 44.3 | (21.5) | 34.0 |
| Investing activities | | | | |
| Additions to property, plant and equipment and intangible assets, net | (8.1) | (26.0) | (39.1) | (75.9) |
| Other, net | 0.2 | 0.2 | 0.4 | 0.2 |
| | (7.9) | (25.8) | (38.7) | (75.7) |
| Increase (decrease) in cash and cash equivalents* | (25.2) | 19.8 | 24.8 | 12.5 |
| Cash and cash equivalents at beginning of period* | 56.0 | (0.4) | 6.0 | 6.9 |
| Cash and cash equivalents at end of period* | \$ 30.8 | \$ 19.4 | \$ 30.8 | \$ 19.4 |

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

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

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Pulp Products Inc. ("CPPI") and its subsidiary entities, hereinafter referred to as "CPPI" or "the Company." At September 30, 2020 and October 22, 2020, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI.

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

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

These financial statements were authorized for issue by the Company's Board of Directors on October 22, 2020.

2. Inventories

| (millions of Canadian dollars, unaudited) | As at September 30, 2020 | As at December 31, 2019 |
|---|--------------------------------|-------------------------------|
| Pulp | \$ 74.0 | \$ 72.8 |
| Paper | 20.9 | 29.7 |
| Wood chips and logs | 49.1 | 35.9 |
| Materials and supplies | 55.1 | 55.3 |
| | \$ 199.1 | \$ 193.7 |

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended September 30, 2020, a \$3.0 million inventory write-down recovery was recognized (nine months ended September 30, 2020 - \$5.5 million write-down recovery), resulting in an inventory provision for finished pulp and raw materials of \$5.2 million at September 30, 2020 (December 31, 2019 – provision of \$10.7 million).

3. Operating Loan and Term Debt

(a) Operating Loan

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

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

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

(b) Term Debt

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

4. Employee Future Benefits

For the three and nine months ended September 30, 2020, defined benefit plan actuarial losses of \$4.2 million and \$5.4 million (before tax), respectively, were recognized in other comprehensive income (loss), reflecting a lower discount rate used to value the net defined benefit obligations, offset in part by a higher than anticipated return on plan assets.

For the three and nine months ended September 30, 2019, the Company recognized defined benefit plan actuarial gains in other comprehensive income (loss) of \$1.0 million and \$12.1 million (before tax), respectively.

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

| | Defined Benefit Pension Plans | Other Benefit Plans |
|--------------------|--|--------------------------------|
| September 30, 2020 | 2.7% | 2.7% |
| June 30, 2020 | 3.0% | 3.0% |
| December 31, 2019 | 3.0% | 3.0% |
| September 30, 2019 | 3.0% | 3.0% |
| June 30, 2019 | 3.0% | 3.0% |
| December 31, 2018 | 3.6% | 3.6% |

5. Income Taxes

The components of the income tax recovery are as follows:

| (millions of Canadian dollars, unaudited) | 3 months ended September 30, | | 9 months ended September 30, | |
|---|------------------------------|---------|------------------------------|---------|
| | 2020 | 2019 | 2020 | 2019 |
| Current | \$ 10.4 | \$ 10.7 | \$ 10.4 | \$ 10.0 |
| Deferred | (3.8) | 1.3 | (5.9) | (6.0) |
| Income tax recovery | \$ 6.6 | \$ 12.0 | \$ 4.5 | \$ 4.0 |

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

| (millions of Canadian dollars, unaudited) | 3 months ended September 30, | | 9 months ended September 30, | |
|---|------------------------------|---------|------------------------------|--------|
| | 2020 | 2019 | 2020 | 2019 |
| Income tax recovery at statutory rate – 27% (2019 – 27%) | \$ 6.7 | \$ 12.0 | \$ 4.5 | \$ 4.1 |
| Add: Entities with different income tax rates and other tax adjustments | (0.1) | - | - | (0.1) |
| Income tax recovery | \$ 6.6 | \$ 12.0 | \$ 4.5 | \$ 4.0 |

In addition, a tax recovery of \$1.2 million related to actuarial losses on the Company's defined benefit plans was recorded in other comprehensive income (loss) for the three months ended September 30, 2020 (three months ended September 30, 2019 - expense of \$0.3 million related to actuarial gains).

For the nine months ended September 30, 2020, a tax recovery of \$1.5 million related to actuarial losses on the Company's defined benefit plans was recorded in other comprehensive income (loss) (nine months ended September 30, 2019 - expense of \$3.3 million related to actuarial gains).

6. Earnings (Loss) per Share

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

| | 3 months ended September 30, | | 9 months ended September 30, | |
|--|------------------------------|------------|------------------------------|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Weighted average number of common shares | 65,233,559 | 65,238,662 | 65,233,559 | 65,246,727 |

As at September 30, 2020 and October 22, 2020, there were 65,233,559 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%.

7. Net Change in Non-Cash Working Capital

| (millions of Canadian dollars, unaudited) | 3 months ended September 30, | | 9 months ended September 30, | |
|---|------------------------------|---------|------------------------------|---------|
| | 2020 | 2019 | 2020 | 2019 |
| Accounts receivable | \$ 1.7 | \$ 35.6 | \$ 19.1 | \$ 27.1 |
| Inventories | (6.7) | 23.1 | (5.4) | 20.4 |
| Prepaid expenses and other | (1.8) | (9.8) | 1.8 | (6.8) |
| Accounts payable and accrued liabilities | (5.6) | (26.7) | (7.7) | (39.2) |
| Net change in non-cash working capital | \$ (12.4) | \$ 22.2 | \$ 7.8 | \$ 1.5 |

8. Segment Information

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

| (millions of Canadian dollars, unaudited) | Pulp | Paper | Unallocated | Elimination Adjustment | Consolidated |
|--|----------|----------|-------------|------------------------|--------------|
| 3 months ended September 30, 2020 | | | | | |
| Sales from contracts with customers | \$ 191.9 | \$ 34.5 | \$ - | \$ - | \$ 226.4 |
| Sales to other segments | 13.7 | - | - | (13.7) | - |
| Operating income (loss) | (29.3) | 5.0 | (3.3) | - | (27.6) |
| Amortization | 18.1 | 0.7 | 0.1 | - | 18.9 |
| Capital expenditures¹ | 8.0 | - | 0.1 | - | 8.1 |
| 3 months ended September 30, 2019 | | | | | |
| Sales from contracts with customers | \$ 179.8 | \$ 37.1 | \$ - | \$ - | \$ 216.9 |
| Sales to other segments | 17.5 | - | - | (17.5) | - |
| Operating income (loss) | (45.5) | 3.9 | (2.4) | - | (44.0) |
| Amortization | 22.7 | 0.9 | 0.1 | - | 23.7 |
| Capital expenditures ¹ | 24.1 | 1.5 | 0.4 | - | 26.0 |
| 9 months ended September 30, 2020 | | | | | |
| Sales from contracts with customers | \$ 630.8 | \$ 121.9 | \$ - | \$ - | \$ 752.7 |
| Sales to other segments | 52.6 | - | - | (52.6) | - |
| Operating income (loss) | (40.2) | 19.2 | (6.8) | - | (27.8) |
| Amortization | 57.9 | 2.1 | 0.1 | - | 60.1 |
| Capital expenditures¹ | 37.3 | 1.3 | 0.5 | - | 39.1 |
| Identifiable assets | 780.7 | 55.5 | 55.8 | - | 892.0 |
| 9 months ended September 30, 2019 | | | | | |
| Sales from contracts with customers | \$ 705.8 | \$ 134.2 | \$ 0.4 | \$ - | \$ 840.4 |
| Sales to other segments | 73.1 | - | - | (73.1) | - |
| Operating income (loss) | (17.1) | 17.9 | (8.3) | - | (7.5) |
| Amortization | 66.5 | 2.7 | 0.1 | - | 69.3 |
| Capital expenditures ¹ | 70.5 | 4.2 | 1.2 | - | 75.9 |
| Identifiable assets | 818.1 | 65.9 | 49.7 | - | 933.7 |

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

Geographic information

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

| (millions of Canadian dollars, unaudited) | 3 months ended September 30, | | | | | 9 months ended September 30, | | | | |
|---|------------------------------|-----------------|------|-------------|--|------------------------------|-----------------|------|-------------|--|
| | 2020 | | | 2019 | | 2020 | | | 2019 | |
| Sales by location of customer | | | | | | | | | | |
| Canada | 7% | \$ 17.2 | 10% | \$ 22.2 | | 8% | \$ 61.2 | 7% | \$ 62.2 | |
| Asia | 58% | \$ 131.0 | 47% | 101.5 | | 59% | \$ 446.1 | 53% | 444.2 | |
| United States | 28% | \$ 63.6 | 34% | 73.5 | | 26% | \$ 192.6 | 29% | 246.2 | |
| Europe | 4% | \$ 8.2 | 4% | 8.9 | | 4% | \$ 28.9 | 5% | 38.0 | |
| Other | 3% | \$ 6.4 | 5% | 10.8 | | 3% | \$ 23.9 | 6% | 49.8 | |
| | 100% | \$ 226.4 | 100% | \$ 216.9 | | 100% | \$ 752.7 | 100% | \$ 840.4 | |

9. Related Party Transactions

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

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

| (millions of Canadian dollars, unaudited) | 3 months ended September 30, | | 9 months ended September 30, | |
|--|------------------------------|-------------|---|-------------------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Transactions | | | | |
| Purchase of wood chips and other | \$ 76.2 | \$ 55.4 | \$ 194.6 | \$ 188.2 |
| (millions of Canadian dollars, unaudited) | | | As at September 30, 2020 | As at December 31, 2019 |
| Balance Sheet | | | | |
| Included in accounts payable and accrued liabilities | | | \$ 25.0 | \$ 26.2 |

10. Commitments and Contingencies

Insurance Proceeds

For the three months ended September 30, 2020, the Company received additional interim insurance proceeds of \$5.2 million (nine months ended September 30, 2020 - \$15.2 million) related to Northwood pulp mill's number five recovery boiler outage in 2018, included as a component of 'Other Income (Expense), Net' on the consolidated statement of income (loss).

Coronavirus Outbreak

On March 11, 2020, the World Health Organization declared the coronavirus ("COVID-19") outbreak a pandemic. As an essential service, the Company has continued to operate, for the most part, 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, impacting the Company's operating plan, liquidity, cash flows, and the valuation of its long-lived assets.

Canada Emergency Wage Subsidy

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

For the three months ended September 30, 2020, a CEWS of \$4.6 million has been recognized as an offset to wage expense included in 'Manufacturing and Product Costs' on the Company's consolidated statement of income (loss) in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* (nine months ended September 30, 2020 - \$7.4 million). As at September 30, 2020, a receivable of \$7.4 million has been recognized for claims under the CEWS program, included in 'Accounts Receivable – Other' on the Company's consolidated balance sheet. The Company will continue to evaluate its eligibility for future periods under the CEWS program through the balance of 2020.

11. Subsequent Event

In addition, in mid-October, Management made the decision to extend the outage on its recovery boiler number five ("RB5") to enable the replacement of the lower furnace. The estimated capital cost of the lower furnace upgrade is \$30 million, with the work anticipated to take between 70-80 days on one production line, which will reduce Northern Bleached Softwood Kraft ("NBSK") pulp production by 60,000 to 70,000 tonnes. This lower furnace replacement, in conjunction with the upper furnace upgrades, is projected to ensure RB5's continued operation for another 15 to 20 years.