2019
ANNUAL REPORT

CANFOR PULP PRODUCTS INC.

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MESSAGE TO SHAREHOLDERS FROM THE CEO

While 2019 was a challenging year for Canfor Pulp Products Inc. (Canfor Pulp), we continue to be encouraged by the growing recognition of the important role that sustainable pulp and paper products have to play as part of the solution to the changing climate.

Following record high pricing in 2018, global pulp prices were weak throughout 2019, largely due to high global pulp inventory levels, combined with weaker than anticipated global demand, particularly from Europe where demand from printing and writing fell sharply. These weak market conditions were the most impactful in China, which is our largest pulp market.

The Company was also impacted by challenging operating conditions in British Columbia. The shrinking fibre supply due to sawmill curtailments resulted in significantly reduced chip residuals and caused major disruptions to our pulp mill operations in 2019. As a result, we took phased summer curtailments at all of our pulp mills. We are working to reinforce our fibre supply by securing cost-competitive fibre agreements over the long term.

Our energy business increased its power generation in 2019 following the commercialization and ramp-up of Northwood Pulp Mill's new 32-megawatt condensing turbo generator earlier in the year. In addition, our paper business had improved results in 2019, largely due to lower slush pulp prices. In May 2019, a new ERP software system called Pulp Edge was implemented on schedule to modernize our supply chain. The system is improving alignment and integration between customer orders and production.

Despite the current challenges facing our business, we believe there is a bright future. Today, over 45% of pulp product offerings go into higher value specialty end uses, everything from fibre cement to wet wipes and coffee pods. We are seeing more and more pulp applications being turned into sustainable and innovative products as the world continues to move away from plastics and fossil fuels. As a result, believe we have a role to play as part of the solution to our changing climate. In 2019 we started a process to assess our sustainability reporting, look for opportunities to improve our business practices and continue to identify opportunities to participate in the growing circular economy. This work will continue into 2020.

Canfor Pulp continues to work on the technology to produce a low carbon biocrude from woody biomass, which would support the movement towards a circular economy. Many fossil fuel producers, particularly major petrochemical companies, are moving quickly to tap into potential new streams of renewable energy and fuels and our low carbon biocrude has the potential to play a significant role in that transition.

We continued our quarterly dividend program in 2019, with $16.4 million returned to shareholders.

Recognizing the challenging market and operating conditions the Company experienced in 2019, we implemented a $40 million cost reduction initiative in early 2020. The majority of cost reductions will be achieved by improving reliability, reducing overhead costs and improving fibre utilization.

A strategic priority for Canfor Pulp is building a more inclusive culture and diverse workplace. Our goal is that by 2030, the diversity of our people is reflective of the communities we operate in. In support of this goal, we created our Inclusion and Diversity Blueprint in 2019 – an action plan to engage, educate and act differently. Some of the changes we have made include using more inclusive language in job descriptions, launching the MentorMe program that matches women mentors and mentees, and training our employees on identifying bias and the importance of creating an inclusive workplace. We have had a very positive response to the changes we are making across the company and we will be continuing to implement more changes.

We continue to make progress on reducing our medical incident rates with the goal of everyone returning home safely every day. Now more than ever, given the COVID-19 pandemic sweeping the globe in 2020, ensuring the health and safety of our employees, customers, suppliers and communities is our top priority. We have implemented an action plan across the Company to ensure we are following the recommendations of the World Health Organization, the Government of Canada and the Government of British Columbia to combat the spread of the virus.

The full impact of COVID-19 on our employees, our company and the economy remains to be seen, but undoubtedly it will have a significant impact. Our top priorities are protecting the health and well-being of our employees and taking the necessary measures to safeguard the business to ensure its ongoing sustainability.

I want to take this opportunity to thank our employees across the Company for their contributions and to thank my outstanding Executive and Management team for their leadership and support. I would also like to extend my appreciation to our Board of Directors for their continued support and guidance.

Don Kayne
Chief Executive Officer

2019 MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the year ended December 31, 2019 relative to the year ended December 31, 2018, and the financial position of the Company at December 31, 2019. 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, 2019 and 2018 (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 "Analysis of Specific Material Items Affecting Comparability of Net Income (Loss)") 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 20, 2020.

Forward Looking Statements

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

COMPANY OVERVIEW

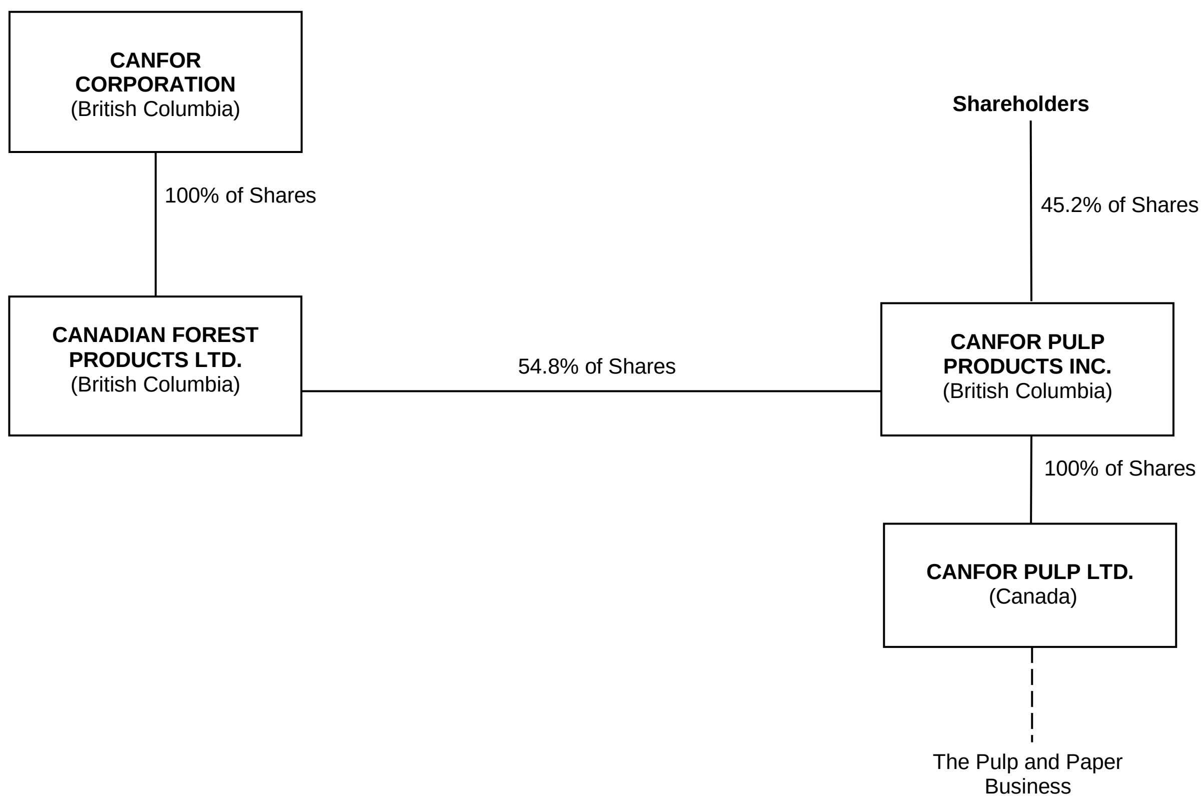
CPPI is a company incorporated and domiciled in Canada and listed on The Toronto Stock Exchange. The consolidated financial statements of the Company as at and for the year ended December 31, 2019 comprise the Company and its subsidiary entities. The Company's operations consist of two Northern Bleached 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, 2019, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI, unchanged from December 31, 2018.

CPPI employs 1,292 people in its wholly owned subsidiaries and jointly owned operations as at December 31, 2019.

The following chart illustrates, on a simplified basis, the ownership structure of CPPI (collectively the Company) as at December 31, 2019.

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 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 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, Europe and Asia.

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 pulp markets in North America, Europe and Asia, as well as 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

CPPI'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:

- Optimizing the value from its premium quality pulp and paper products in specialty end use applications;
- Attaining world-class supply chain performance;
- Preserving its low-cost operating position and maintaining a strong financial position;
- Growing its green energy business;
- Contributing to the climate change solution by producing sustainable pulp products that support the bioeconomy;
- Developing an enterprise-wide culture of safety, innovation and engagement; and
- Capitalizing on accretive growth and diversification opportunities.

OVERVIEW OF 2019

Following record-high pulp prices and operating income in 2018, Canfor Pulp saw a sharp reversal of market conditions in 2019, which along with the impact of significant sawmill curtailments on supply and costs, weighed heavily on financial results. For the 2019 year, the Company reported an operating loss of $31.0 million and a net loss of $0.47 per share, compared to operating income of $246.6 million and net income of $2.83 per share for the year ended December 31, 2018.

Global pulp market fundamentals were extremely challenging throughout 2019. Prices to China, the world's largest consumer of softwood pulp, fell US$330 per tonne, or 36%, from the mid-2018 peak to end 2019 at US$580[1] per tonne, their lowest level in over 10 years. The rapid decline reflected a combination of weaker than anticipated global demand, particularly in Europe where demand for printing and writing papers fell sharply, and continued elevated global pulp inventory levels. For the 2019 year as a whole, NBSK pulp list prices to China averaged US$634[1] per tonne, a decrease of US$244 per tonne, or 28%, from 2018, while North American NBSK pulp list prices averaged US$1,239[1] per tonne for 2019, down US$98 per tonne, or 7% from 2018 (before taking account of customer discounts). BCTMP prices saw similar weakness in demand and pricing pressure throughout 2019, with US-dollar prices to China falling US$112 per tonne, or 19%, year-over-year.

[1] Resource Information Systems, Inc.

Operating losses in the pulp segment were $43.9 million in 2019, down $292.8 million from the previous year, for the most part reflecting substantially lower average pulp unit sales realizations. To a lesser extent, results were also impacted by lower production and shipments in response to the deteriorating pulp market conditions and fibre supply disruptions, which necessitated the Company taking phased summer curtailments at all of its NBSK pulp mills in Prince George, BC, as well as at its BCTMP mill in Taylor, BC, reducing NBSK pulp production and BCTMP production by 80,000 tonnes and 60,000 tonnes, respectively.

Higher pulp unit manufacturing costs primarily reflected reduced production in 2019, combined with increased fibre and energy costs, the latter mostly resulting from reduced residual supply related to the sawmill curtailments. For most of 2019, the Company experienced significant fibre supply disruptions, driven largely from BC Interior sawmill curtailments, which led to higher fibre costs as the Company sourced incremental volumes of materially higher-cost whole log chips. Recognizing the challenging market conditions and increased fibre costs, the Company commenced a $40 million cost reduction initiative at the beginning of 2020, with targeted savings achieved through improving reliability, reducing overhead cost and improving fibre utilization, with the full amount of annualized savings anticipated by the end of 2021.

The Company's energy business increased its power generation in 2019 following the commercialization and ramp-up of Northwood pulp mill's Turbo Generator Condensing turbine in the first quarter of 2019. As mentioned, energy costs reflected reduced supplies of biomass from reduced sawmill operating rates. With less disruptions currently forecast for 2020, the Company projects the benefits of this major project will be substantially realized in 2020.

The Company's paper business results improved in 2019, principally due to lower slush pulp prices, driven by deteriorating NBSK pulp prices in the current year.

Through 2019, the Company continued its quarterly dividends of $0.0625 per common share, returning a total of $16.4 million to shareholders in the year.

Notwithstanding the challenging market and operating conditions, the Company maintained a solid balance sheet with low net debt to capitalization levels through 2019, finishing the year with net debt of $58.0 million and a net debt to total capitalization ratio of 9.4%.

A review of the more significant developments and results by operating segment in 2019 follows.

Markets and Pricing

(i) Pulp – Challenging global pulp fundamentals result in substantial downward pressure on pricing in 2019

The elevated inventory levels experienced towards the end of 2018 persisted through 2019, as a sharp fall-off in pulp demand in the Americas and Europe negated a modest increase in Chinese demand. Markets and prices remained under pressure through most of the year, as European pulp producers looked to liquidate their excess inventories in offshore markets, particularly China. As mentioned, NBSK pulp list prices to China for the year averaged US$634 per tonne, US$244 per tonne, or 28%, lower than the 2018 average price. The pulp market weakness experienced in Asia in late 2018 spilled over to North America in 2019 as the year progressed; list prices to that region falling from US$1,405 per tonne in January to US$1,115 per tonne in December.

Global softwood pulp producer inventories started 2019 at a record-high 42 days of supply, well in excess of the balanced range of 27-33 days. As mentioned, although China demand somewhat improved through 2019, the slowdown in demand from other regions, particularly Europe, ensured that inventory levels remained above the balanced range during 2019; softwood inventories ended the year at 37 days of supply, five days lower than the beginning of 2019.

The following charts show the NBSK pulp list price movements in 2019, 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

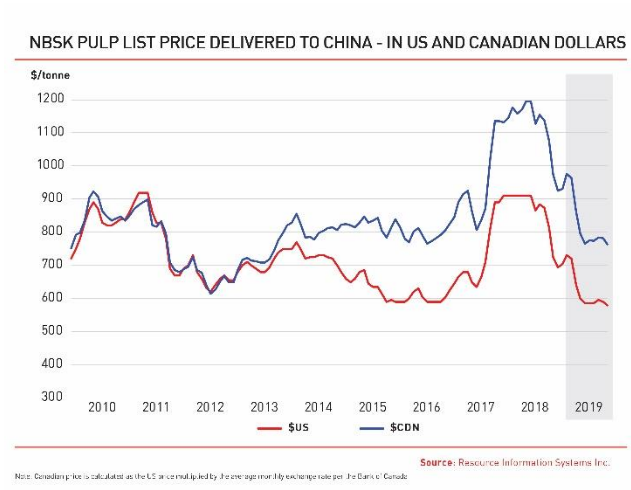


Chart 2

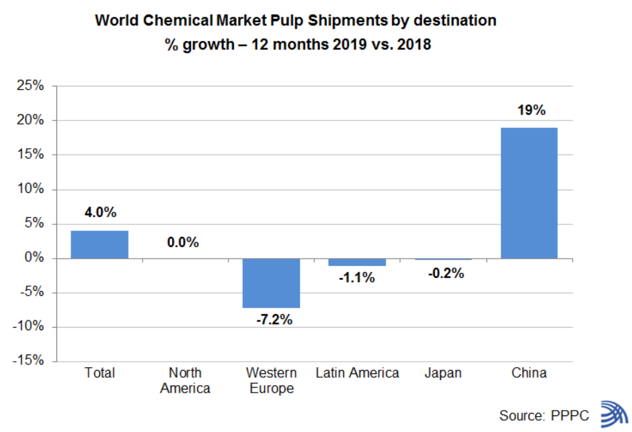
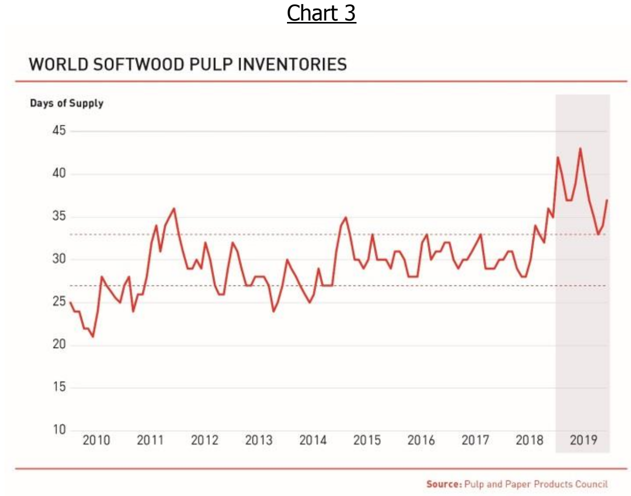


Chart 3



(ii) Paper – Kraft paper markets soften in 2019 but receive boost from lower slush pulp pricing

Global bleached kraft paper markets also came under pressure in 2019 with high paper inventory levels and weather-related challenges, particularly in North America, impacting demand and pricing. Offshore markets saw steady price declines through the year, while North American markets experienced weakness through the latter half of 2019. The lower kraft bleached paper prices were more than offset by a 2% weaker Canadian dollar and a higher value regional mix. Despite the pressure on paper pricing, the Company's paper business benefited from substantial reductions in slush pulp pricing throughout 2019, associated with the declining NBSK pulp prices in the current year.

Fibre Supply

Sawmill curtailments in 2019 leading to major disruptions to fibre availability and higher prices

The Company's supply of sawmill residual chips was significantly impacted in 2019, as weak global lumber market fundamentals, combined with a challenging log cost environment in BC, resulted in extensive permanent and temporary sawmill curtailments in the BC Interior during the year. Consequently, the Company's fibre purchases included an increase in the proportion of higher-cost whole log chips. The Company took a number of actions in response to sawmill rationalization in BC, and in the latter half of 2019, secured additional fibre supply, which will support its operations over the medium to long-term by ensuring a balanced and economical fibre supply for its pulp mills. Recognizing the BC Interior fibre dynamics, there has also been a significant focus on optimizing fibre procurement, as well as maximizing fibre utilization and recovery.

Capital and Operations Review

Market-related curtailments taken in response to major sawmill curtailments; Significant focus on cost reduction and operational reliability in 2020

Total pulp and paper production in 2019 was down 90,000 tonnes, or 7%, compared to the prior year. The aforementioned phased summer curtailments, which reduced pulp production by 140,000 tonnes, and, to a lesser extent, kiln-related operational upsets more than offset the loss of production from an extended recovery boiler outage at the Northwood pulp mill in the fall of 2018 (approximately 70,000 tonnes) .

In light of the challenging market and operating conditions, Management in early 2020 commenced a $40 million cost reduction initiative aimed at reducing unit manufacturing costs. Most of the savings will be achieved from improving reliability, reducing overhead cost and improving fibre utilization, with the full amount of annualized savings targeted by the end of 2021.

Capital spending in 2019 totalled $103.0 million and principally comprised Northwood pulp mill's commercialization of a new 32 megawatt condensing turbo-generator, construction of a new raw water treatment plant at the Company's Intercontinental pulp mill (which is anticipated to be completed by the end of 2020), and a new ERP software system, which went live on schedule in May 2019. In 2020, Management currently anticipates lower capital spending in light of the current challenging market conditions, with the implementation and start-up of the raw water treatment plant and several lower-cost fibre-related projects being the key areas of focus. In addition, Management continues to assess and evaluate long-term recovery boiler solutions for its Northwood NBSK pulp mill.

OVERVIEW OF CONSOLIDATED RESULTS – 2019 COMPARED TO 2018

Selected Financial Information and Statistics

(millions of Canadian dollars, except for per share amounts)		2019		2018
Sales	**$**	**1,087.9**	$	1,374.3
Operating income before amortization[2]	**$**	**61.9**	$	326.2
Operating income (loss)	**$**	**(31.0)**	$	246.6
Net income (loss)	**$**	**(30.5)**	$	184.4
Net income (loss) per share, basic and diluted	**$**	**(0.47)**	$	2.83
ROIC – Consolidated[3]		**(4.0)%**		37.0%
Average exchange rate (US$ per C$1.00)[4]	**$**	**0.754**	$	0.772

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.

[2] Amortization includes amortization of certain capitalized major maintenance costs.

[3] Consolidated Return on Invested Capital ("ROIC") is equal to operating income/loss, plus realized gains/losses on derivatives and other income/expense, divided by the average invested capital during the year. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital.

[4] Source – Bank of Canada (monthly average rate for the period).

Selected Cash Flow Information

(millions of Canadian dollars)		2019		2018
Operating income (loss) by segment:				
Pulp	**$**	**(43.9)**	$	248.9
Paper	**$**	**22.9**	$	11.0
Unallocated	**$**	**(10.0)**	$	(13.3)
Total operating income (loss)	**$**	**(31.0)**	$	246.6
Add: Amortization[5]	**$**	**92.9**	$	79.6
Total operating income before amortization	**$**	**61.9**	$	326.2
Add (deduct):				
Working capital movements	**$**	**7.7**	$	(25.6)
Defined benefit plan contributions, net	**$**	**(5.4)**	$	(6.6)
Income taxes paid, net	**$**	**(4.6)**	$	(90.4)
Other operating cash flows, net	**$**	**(0.2)**	$	11.6
Cash from operating activities	**$**	**59.4**	$	215.2
Add (deduct):				
Payment of lease obligations[6]	**$**	**(1.1)**	$	-
Dividends paid	**$**	**(16.4)**	$	(163.2)
Finance expenses paid	**$**	**(3.8)**	$	(3.3)
Capital additions, net	**$**	**(103.0)**	$	(120.5)
Proceeds from long-term debt	**$**	**50.0**	$	-
Share purchases	**$**	**(0.2)**	$	(0.1)
Other, net	**$**	**0.2**	$	2.1
Change in cash / operating loans	**$**	**(14.9)**	$	(69.8)

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.

[5] Amortization includes amortization of certain capitalized major maintenance costs.

[6] On adoption of IFRS 16 *Leases*, payment of lease obligations represents cash payments towards reduction of outstanding lease obligations and related interest, which were previously included with cash from operating activities.

OPERATING RESULTS BY BUSINESS SEGMENT – 2019 COMPARED TO 2018

The following discussion of CPPI's operating results relates to the operating segments and the non-segmented items as per the Segmented 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 2019 and 2018 are as follows:

(millions of Canadian dollars, unless otherwise noted)		**2019**		2018
Sales	**$**	**918.9**	$	1,192.9
Operating income before amortization[7]	**$**	**45.4**	$	324.2
Operating income (loss)	**$**	**(43.9)**	$	248.9
Inventory write-downs	**$**	**10.7**	$	-
Adjusted operating income (loss)	**$**	**(33.2)**	$	248.9
Capital expenditures	**$**	**96.4**	$	113.3
Average NBSK pulp price delivered to China - US$[8]	**$**	**634**	$	878
Average NBSK pulp price delivered to China – Cdn$[8]	**$**	**841**	$	1,137
Production – pulp (000 mt)		**1,035**		1,117
Shipments – pulp (000 mt)		**1,027**		1,132

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.

[7] Amortization includes amortization of certain capitalized major maintenance costs.

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

Markets

As mentioned, global pulp market fundamentals were extremely challenging throughout 2019. Prices to China, the world's largest consumer of softwood pulp, fell US$330 per tonne, or 36%, from the mid-2018 peak to end 2019 at US$580 per tonne. As the price weakness in Asia spilled over to North America in 2019, list prices (before taking account of customer discounts) to the latter region fell from US$1,405 per tonne in January to US$1,115 per tonne in December.

World 20[9] global softwood pulp producer inventories started 2019 at a record-high 42 days of supply, well in excess of the balanced range of 27-33 days. As mentioned, although China demand somewhat improved through 2019, the slowdown in demand from other regions, particularly Europe, ensured that inventory levels remained above the balanced range during 2019; softwood inventories ended the year at 37 days of supply, five days lower than the beginning of 2019.

Sales

The Company's pulp shipments in 2019 were 1.03 million tonnes, down 105,000 tonnes, or 9%, from 2018, principally due to a 7% decrease in pulp production, largely curtailment related, when compared to the prior year.

As mentioned, for the 2019 year as a whole, NBSK pulp list prices to China and North America were down sharply year-over-year. Accordingly, average NBSK pulp unit sales realizations were down significantly from 2018 with the sizeable drop in US-dollar list prices more than offsetting the benefit of the 2% weaker Canadian dollar in 2019. Average BCTMP unit sales realizations also reflected substantial price-related decreases in 2019 from the prior year.

Higher energy revenues in 2019 compared to the prior year reflected increased energy production, largely driven by the commercialization and ramp-up of the previously announced Turbo Generator Condensing turbine at the Northwood pulp mill in the first quarter of 2019, which more than offset the decrease in operating days associated with the aforementioned market-related curtailments in the current year.

[9] 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").

Operations

Pulp production in 2019, at 1.03 million tonnes, was down 82,000 tonnes, or 7%, from 2018 principally reflecting phased summer production curtailments and, to a lesser extent, kiln-related operational challenges, which more than offset the unplanned recovery boiler outage at the Northwood pulp mill in the previous year. The Company's Prince George pulp mill ("PG Pulp mill") ran well, while its other two kraft pulp mills at Intercontinental and Northwood experienced several operational upsets in 2019, the majority of which were kiln-related. The Company's Taylor BCTMP mill, after a challenging start to the year, finished 2019 strongly, setting a new production record in the fourth quarter.

Higher pulp unit manufacturing costs in 2019 primarily reflected the lower year-over-year production, combined with increased fibre and energy costs. The moderate escalation in fibre costs compared to 2018 primarily reflected an increased proportion of higher-cost whole log chips, which more than offset lower market-based prices for sawmill residuals (linked to higher Canadian NBSK pulp prices).

Paper

Selected Financial Information and Statistics – Paper

Summarized results for the Paper segment for 2019 and 2018 are as follows:

(millions of Canadian dollars, unless otherwise noted)		**2019**		2018
Sales	**$**	**168.4**	$	180.9
Operating income before amortization[10]	**$**	**26.4**	$	15.2
Operating income	**$**	**22.9**	$	11.0
Capital expenditures	**$**	**5.1**	$	3.7
Production – paper (000 mt)		**127**		135
Shipments – paper (000 mt)		**119**		130

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.
[10] Amortization includes amortization of certain capitalized major maintenance costs.

Markets

As previously mentioned, global bleached kraft paper markets came under pressure in 2019 with high paper inventory levels and weather-related challenges, particularly in North America, impacting demand and pricing. Offshore markets saw steady price declines through the year, while North American markets experienced weakness through the latter half of 2019.

Sales

The Company's paper shipments in 2019, at 119,000 tonnes, were down 11,000 tonnes from 2018, primarily reflecting the impact of a 6% production decrease in the current year. Paper unit sales realizations for 2019 were slightly higher than 2018, as the weaker Canadian dollar combined with a higher-value regional mix, more than offset declining US-dollar kraft paper prices in 2019.

Operations

Paper production in 2019 was 127,000 tonnes, down 8,000 tonnes, from 2018, principally as a result of a market and fibre-related extended mill scheduled outage in the early fall of 2019. Lower paper unit manufacturing costs in 2019 were the result of significant decreases in slush pulp costs (linked to substantially lower Canadian dollar NBSK market pulp prices), which more than offset the impacts from lower production levels and increased operating supply costs in 2019.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)		2019		2018
Corporate costs	**$**	**(10.0)**	$	(13.3)
Finance expense, net	**$**	**(6.6)**	$	(4.2)
Other income (expense), net	**$**	**(4.0)**	$	8.7

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.

Corporate Costs

Corporate costs of $10.0 million in 2019, down $3.3 million compared to the prior year, largely reflected reduced head office and general administrative expenses in the current year, and organizational reductions in senior management in the comparative period.

Finance Expense, Net

Net finance expense for 2019 was $6.6 million, up $2.4 million from 2018. The increase primarily reflected lower interest earned as a result of reduced cash balances held throughout the current year, and to a lesser extent, higher interest expense associated with amounts drawn on the Company's operating loan and new non-revolving term loan in 2019.

Other Income (Expense), Net

Other expense, net, of $4.0 million for 2019 principally related to unfavourable foreign exchange movements on US-dollar denominated working capital balances, compared to favourable foreign exchange movements on US-dollar denominated working capital balances totalling $8.7 million in the prior year.

Income Tax Recovery (Expense)

The Company recorded an income tax recovery of $11.1 million in 2019 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)		2019		2018
Net income (loss) before income taxes	**$**	**(41.6)**	$	251.1
Income tax recovery (expense) at statutory rate of 27% (2018 – 27%)	**$**	**11.2**	$	(67.8)
Add (deduct):				
Entities with different income tax rates and other tax adjustments		**-**		0.2
Permanent difference from capital gains and other non-deductible items		**(0.1)**		0.9
Income tax recovery (expense)	**$**	**11.1**	$	(66.7)

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.

In addition to the amounts recorded in net income (loss), a tax expense of $3.3 million was recorded to other comprehensive income (loss) in relation to actuarial gains on the defined benefit plans in 2019 (December 31, 2018 – expense of $1.5 million in relation to actuarial gains).

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 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 50% reduction in MSP in 2019, when combined with the initial 50% reduction recognized in 2017, resulted in a gain of $56.7 million, or $0.87 per common share ($41.8 million after tax, or $0.64 per common share), reflected as a reduction in the Company's non-pension post-retirement benefit obligation. 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 2018, the gain of $5.5 million (before tax) recognized in Other Comprehensive Income largely reflected gains on other non-pension post-employment benefits, partially offset by losses on the Company's defined benefit pension plan.

In 2018, the Company purchased $8.9 million of buy-in annuities through its defined benefit pension plans, increasing total annuities purchased to $86.0 million at December 31, 2018. Transaction costs of $0.7 million related to the purchase were recognized in Other Comprehensive Income, principally reflecting the difference in the annuity rate compared to the discount rate used to value the obligations on a going concern basis. In 2019, no annuities were purchased by the Company. 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, 46% 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, 2019 and 2018:

(millions of Canadian dollars, except for ratios)		**2019**		2018
Cash and cash equivalents	**$**	**6.0**	$	6.9
Operating working capital		**168.1**		161.4
Net working capital		**174.1**		168.3
Property, plant and equipment and intangible assets		**580.8**		578.2
Other long-term assets		**8.7**		3.5
Net assets	**$**	**763.6**	$	750.0
Long-term debt		**50.0**		-
Long-term lease obligations		**1.9**		-
Retirement benefit obligations		**68.6**		80.0
Other long-term provisions		**7.1**		6.6
Deferred income taxes, net		**77.7**		66.8
Total equity		**558.3**		596.6
	$	**763.6**	$	750.0
Ratio of current assets to current liabilities		**2.1 : 1**		1.9 : 1
Net debt (cash) to total capitalization		**9.4%**		(1.2)%

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.

Reflecting 2019'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 2019 was 2.1:1, compared to 1.9:1 at the end of 2018. See further discussion in "Changes in Financial Position" section.

The Company's net debt to capitalization was 9.4% at December 31, 2019 (December 31, 2018: negative 1.2%), primarily reflecting the Company's new $50.0 million non-revolving term loan, and to a lesser extent, the draw-down of the Company's operating loan facility in the current year.

CHANGES IN FINANCIAL POSITION

At the end of 2019, CPPI had $6.0 million of cash and cash equivalents.

(millions of Canadian dollars)	2019	2018
Decrease in cash and cash equivalents	**$ (0.9)**	$ (69.8)
Operating activities	**$ 59.4**	$ 215.2
Financing activities	**$ 42.5**	$ (166.6)
Investing activities	**$ (102.8)**	$ (118.4)

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.

The changes in the components of these cash flows during 2019 are discussed in the following sections.

Operating Activities

For the 2019 year, CPPI generated cash from operating activities of $59.4 million, down $155.8 million from cash generated of $215.2 million in the previous year. The decrease in operating cash flows was principally due to materially lower cash earnings, partially offset by lower tax installment payments in 2019 and favourable non-cash working capital movements. The latter primarily reflected lower accounts receivable and inventory balances, driven mainly by the deterioration of NBSK pulp and BCTMP list prices year-over-year, offset, in part, by timing-related decrease in accounts payable and accrued liabilities.

Financing Activities

In 2019, cash generated by financing activities was $42.5 million, compared to cash used of $166.6 million in the prior year. 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). Cash used for financing activities in 2018 principally related to a special dividend to shareholders totaling $146.8 million (or $2.25 per common share) as a result of strong cash generated by the business, combined with quarterly dividends totaling $16.4 million (also $0.0625 per common share in each quarter). Finance expenses paid during 2019 were broadly in line with the prior year.

Investing Activities

Net cash used for investing activities in 2019 was $102.8 million, compared to $118.4 million used in 2018. Capital expenditures of $103.0 million in 2019 principally comprised Northwood pulp mill's commercialization of a new 32 megawatt condensing turbo-generator, construction of a new raw water treatment plant (which is anticipated to be completed by the end of 2020), and a new ERP software system, which went live on schedule in May 2019.

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loan and Term Debt

At December 31, 2019, the Company had a $110.0 million unsecured operating loan facility, with $14.0 million of the facility drawn, and $13.2 million reserved for several standby letters of credit, leaving $82.8 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, 2019, and expects to remain so for the foreseeable future.

Normal Course Issuer Bid

On March 4, 2019, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,262,537 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2019. The renewed normal course issuer bid is set to expire on March 6, 2020. The Company does not currently intend to renew the normal course issuer bid following its expiry.

In 2019, CPPI purchased 17,200 common shares at an average price of $10.67 per common share.

As at December 31, 2019 and February 20, 2020 there were 65,233,559 common shares of the Company issued and outstanding, and Canfor's ownership interest in CPPI was 54.8% (December 31, 2018 – 54.8%).

2020 Projected Capital Spending and Debt Repayments

Based on its current outlook, assuming no further deterioration in market conditions during the year, the Company anticipates that it will invest approximately $40.0 million in capital projects in 2020, which will consist primarily of the implementation and start-up of the raw water treatment plant at the Intercontinental pulp mill and several lower-cost fibre-related projects being the key areas of focus. In addition, Management continues to assess and evaluate long-term recovery boiler solutions for its Northwood NBSK pulp mill. The Company currently plans to utilize its cash flow from operations and its available cash and operating loans to finance its capital expenditures during 2020.

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 "Liquidity and Financial Requirements" for further details. As at December 31, 2019 the Company had no derivative financial instruments outstanding.

Commitments

Contractual obligations the Company is committed to include:

- Other contractual commitments, not previously mentioned, total $63.9 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 7 of CPPI's 2019 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 includes 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, 2019 the Company had posted $7.2 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 $9.3 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 1 to 32 years which have been discounted at risk free rates ranging from 1.7% to 1.8%. The estimated discounted value is $6.6 million, and the amount is included in Other Long-Term Provisions.
- Obligations to pay pension and other post-employment benefits, for which a net liability for accounting purposes at December 31, 2019 was $68.6 million. As at December 31, 2019, CPPI estimated that it would make contribution payments of $5.0 million to its defined benefit pension plans in 2020 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 2019, the Company depended on Canfor to provide approximately 70% of its fibre supply (2018: 66%) 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 2019, the Company purchased wood chips, logs and hog fuel from Canfor sawmills in the amount of $234.8 million (2018: $252.8 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 2019 was $16.3 million. These amounts are included in manufacturing and product costs and selling and administration costs within CPPI's 2019 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 2019 was $3.5 million. These amounts are included as cost recoveries in manufacturing and product costs and selling and administration costs within CPPI's 2019 consolidated financial statements. At December 31, 2019, an outstanding balance of $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, 2019. During 2019, the Company sold paper to subsidiaries owned by The Jim Pattison Group totaling $3.7 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, 2019.

Additional details on related party transactions are contained in Note 17 to CPPI's 2019 consolidated financial statements.

LICELLA PULP JOINT VENTURE

In May 2016, CPPI and Licella Fibre Fuel Pty Ltd. ("Licella") agreed to form a joint venture under the name Licella Pulp Joint Venture to investigate opportunities to integrate Licella's Catalytic Hydrothermal Reactor platform into CPPI's pulp mills to economically convert biomass into next generation biofuels and biochemicals. Under the terms of the joint venture agreement:

- Canfor Pulp agreed to bring its enterprise and knowledge surrounding kraft pulping processes, while Licella agreed to contribute its next generation bio-technology;

- Canfor Pulp's ownership interest in the joint venture is 10%, with the following rights to increase its interest:
    - After $20.0 million of initial contributions and the successful conclusion of a pre-feasibility study, culminating in the decision to build a first commercial bio-crude plant at the Company's Intercontinental NBSK pulp mill ("First Plant"), Canfor Pulp's interest increases to 20%;
    - Upon successful commissioning of the First Plant, Canfor Pulp's interest in the joint venture increases to 50%.

Since forming the joint venture in May 2016, to December 31, 2019, Canfor Pulp has contributed $6.9 million (net of government funding) to the joint venture. Due to the more challenging fibre environment in BC in 2019, the risks associated with accessing cost-competitive biomass feedstock have increased.

CO-MARKETING ARRANGEMENT WITH UPM-KYMMENE

In prior years, CPPI's sales network represented and co-marketed UPM-Kymmene ("UPM") pulp products in North America, Japan and Korea, while UPM's pulp sales network represented and co-marketed CPPI's products in Europe and China, as part of a strategic sales and marketing cooperation agreement, named Fibre United. In 2019, the Company and UPM made a joint decision to end this strategic sales and marketing cooperation agreement to enable the development of each company's strategic directions. For CPPI, this means conducting its own direct marketing to its markets including China, Japan and Korea. The cooperation remained in place until the end of 2019. The transition to the new marketing arrangements has gone smoothly.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 247.5**	**$ 216.9**	**$ 319.5**	**$ 304.0**	$ 289.7	$ 328.5	$ 396.4	$ 359.7
Operating income (loss) before amortization[11]	**$ 0.1**	**$ (20.3)**	**$ 41.7**	**$ 40.4**	$ 36.1	$ 80.7	$ 105.1	$ 104.3
Operating income (loss)	**$ (23.5)**	**$ (44.0)**	**$ 18.4**	**$ 18.1**	$ 15.6	$ 60.5	$ 85.4	$ 85.1
Net income (loss)	**$ (19.5)**	**$ (32.4)**	**$ 10.6**	**$ 10.8**	$ 14.2	$ 42.9	$ 63.0	$ 64.3
Per common share (Canadian dollars)								
Net income (loss)– basic and diluted	**$ (0.30)**	**$ (0.50)**	**$ 0.16**	**$ 0.17**	$ 0.21	$ 0.66	$ 0.97	$ 0.99
Book value[12]	**$ 8.56**	**$ 8.92**	**$ 9.47**	**$ 9.21**	$ 9.14	$ 11.22	$ 10.62	$ 9.72
Dividends declared	**$ 0.0625**	**$ 0.0625**	**$ 0.0625**	**$ 0.0625**	$ 0.0625	$ 2.3125	$ 0.0625	$ 0.0625
Statistics								
Pulp shipments (000 mt)	**267**	**213**	**288**	**259**	231	262	329	310
Paper shipments (000 mt)	**26**	**27**	**33**	**33**	32	34	33	32
Average exchange rate – US$/Cdn$	**$ 0.758**	**$ 0.757**	**$ 0.748**	**$ 0.752**	$ 0.758	$ 0.765	$ 0.774	$ 0.791
Average NBSK pulp list price delivered to China (US$)	**$ 588**	**$ 585**	**$ 653**	**$ 710**	$ 805	$ 887	$ 910	$ 910

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.

[11] Amortization includes amortization of certain capitalized major maintenance costs.

[12] 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.

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 long-term debt, and revaluation of outstanding energy derivatives, pulp futures and US-dollar forward contracts and collars.

(millions of Canadian dollars)	**Q4 2019**	**Q3 2019**	**Q2 2019**	**Q1 2019**	**Q4 2018**	**Q3 2018**	**Q2 2018**	**Q1 2018**
Operating income (loss) by segment:								
Pulp	**$ (26.8)**	**$ (45.5)**	**$ 12.9**	**$ 15.5**	$ 15.2	$ 60.7	$ 86.6	$ 86.4
Paper	**$ 5.0**	**$ 3.9**	**$ 8.1**	**$ 5.9**	$ 3.5	$ 3.1	$ 1.5	$ 2.9
Unallocated	**$ (1.7)**	**$ (2.4)**	**$ (2.6)**	**$ (3.3)**	$ (3.1)	$ (3.3)	$ (2.7)	$ (4.2)
Total operating income (loss)	**$ (23.5)**	**$ (44.0)**	**$ 18.4**	**$ 18.1**	$ 15.6	$ 60.5	$ 85.4	$ 85.1
Add: Amortization[13]	**$ 23.6**	**$ 23.7**	**$ 23.3**	**$ 22.3**	$ 20.5	$ 20.2	$ 19.7	$ 19.2
Total operating income (loss) before amortization	**$ 0.1**	**$ (20.3)**	**$ 41.7**	**$ 40.4**	$ 36.1	$ 80.7	$ 105.1	$ 104.3
Add (deduct):								
Working capital movements	**$ 6.2**	**$ 22.2**	**$ 13.4**	**$ (34.1)**	$ (9.4)	$ 13.7	$ (7.7)	$ (22.2)
Defined benefit pension plan contributions	**$ (1.4)**	**$ (1.5)**	**$ (1.4)**	**$ (1.1)**	$ (1.6)	$ (1.6)	$ (1.7)	$ (1.7)
Income taxes received (paid), net	**$ (0.1)**	**$ (0.1)**	**$ (0.4)**	**$ (4.0)**	$ (36.3)	$ (35.2)	$ 0.2	$ (19.1)
Other operating cash flows, net	**$ 0.4**	**$ 1.0**	**$ (1.0)**	**$ (0.6)**	$ 6.3	$ (2.5)	$ 2.0	$ 5.8
Cash from operating activities	**$ 5.2**	**$ 1.3**	**$ 52.3**	**$ 0.6**	$ (4.9)	$ 55.1	$ 97.9	$ 67.1
Add (deduct):								
Payment of lease obligations[14]	**$ (0.3)**	**(0.4)**	**(0.2)**	**(0.2)**	$ -	$ -	$ -	$ -
Dividends paid	**$ (4.1)**	**$ (4.1)**	**$ (4.1)**	**$ (4.1)**	$ (150.9)	$ (4.1)	$ (4.1)	$ (4.1)
Finance expenses paid	**$ (1.1)**	**$ (1.0)**	**$ (1.0)**	**$ (0.7)**	$ (0.8)	$ (0.8)	$ (1.0)	$ (0.7)
Capital additions, net	**$ (27.1)**	**$ (26.0)**	**$ (24.4)**	**$ (25.5)**	$ (42.5)	$ (33.4)	$ (24.8)	$ (19.8)
Proceeds from long-term debt	**$ -**	**$ 50.0**	**$ -**	**-**	$ -	$ -	$ -	$ -
Share purchases	**$ -**	**$ (0.2)**	**$ -**	**$ -**	$ -	$ -	$ -	$ (0.1)
Other, net	**$ -**	**$ 0.2**	**$ -**	**$ -**	$ 0.6	$ 0.7	$ 0.5	$ 0.3
Change in cash / operating loans	**$ (27.4)**	**$ 19.8**	**$ 22.6**	**$ (29.9)**	$ (198.5)	$ 17.5	$ 68.5	$ 42.7

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.

[13] Amortization includes amortization of certain capitalized major maintenance costs.

[14] On adoption of IFRS 16 *Leases*, payment of lease obligations represents cash payments towards reduction of outstanding lease obligations and related interest, which were previously included with cash from operating activities.

THREE-YEAR COMPARATIVE REVIEW

(millions of Canadian dollars, except per share amounts)	**2019**	**2018**	**2017**
Sales	**$ 1,087.9**	$ 1,374.3	$ 1,197.9
Net income (loss)	**$ (30.5)**	$ 184.4	$ 102.1
Total assets	**$ 920.8**	$ 932.0	$ 892.2
Term debt	**$ 50.0**	$ -	$ -
Net income (loss) per share, basic and diluted	**$ (0.47)**	$ 2.83	$ 1.55
Dividends declared per share	**$ 0.0625**	$ 2.50	$ 0.250

FOURTH QUARTER RESULTS
Overview

The Company reported an operating loss of $23.5 million and a net loss of $19.5 million for the fourth quarter of 2019, compared to an operating loss of $44.0 million and a net loss of $32.4 million for the third quarter of 2019 and an operating income of $15.6 million and a net income of $14.2 million for the fourth quarter of 2018. A net loss per share was $0.30 for the fourth quarter of 2019, compared to a net loss per share of $0.50 in the third quarter of 2019 and a net income of $0.21 per share in the fourth quarter of 2018.

The lower reported loss in the current period principally reflected higher pulp shipments and lower pulp unit manufacturing costs, both factors largely attributable to increased production at the Company's NBSK pulp and BCTMP mills, following market-related curtailments throughout the prior quarter.

An overview of the results by business segment for the fourth quarter of 2019 compared to the third quarter of 2019 and the fourth quarter of 2018 follows.

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)		**Q4 2019**		Q3 2019		Q4 2018
Sales	**$**	**213.1**	$	179.8	$	243.5
Operating income (loss) before amortization[15]	**$**	**(4.0)**	$	(22.8)	$	34.7
Operating income (loss)	**$**	**(26.8)**	$	(45.5)	$	15.2
Average NBSK pulp price delivered to China – US$[16]	**$**	**588**	$	585	$	805
Average NBSK pulp price delivered to China – Cdn$[16]	**$**	**776**	$	773	$	1,062
Production – pulp (000 mt)		**286**		174		224
Shipments – pulp (000 mt)		**267**		213		231

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.
[15] Amortization includes amortization of certain capitalized major maintenance costs.
[16] Per tonne, NBSK pulp list price delivered to China (as published by Resource Information Systems, Inc.); Average NBSK pulp price delivered to China in Cdn$ calculated as average NBSK pulp price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.

Markets

Global pulp prices remained at depressed levels through the fourth quarter of 2019, with weak pricing in Asia spilling over to North America and Europe as the quarter progressed. Purchasing activity from China picked up during the quarter, but elsewhere demand remained weak, particularly in Europe. US-dollar NBSK pulp list prices to China averaged US$588 per tonne, broadly in line with the prior quarter, reflecting the aforementioned demand and supply factors. Average US-dollar NBSK pulp list prices to North America experienced a decline of US$55 per tonne, or 5%, averaging US$1,115 per tonne in the current quarter (before discounts, which were largely unchanged from the previous quarter), as published by RISI.

Global softwood pulp producer inventory levels remained above the balanced range during the current quarter and were at 37 days[17] of supply in December 2019, an increase of 2 days from September 2019; market conditions are generally considered balanced when inventories are in the 27-33 days of supply range.

Sales

The Company's pulp shipments for the fourth quarter of 2019 totalled 267,000 tonnes, up 54,000 tonnes, or 25%, from the previous quarter and up 36,000 tonnes, or 16%, from the fourth quarter of 2018. Pulp shipments in the current quarter principally reflected an increase in pulp production when compared to both comparative quarters, offset in part by a rebuild of pulp inventories to more normal levels in the current quarter after material drawdowns in both comparative periods.

[17] 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").

Average NBSK pulp unit sales realizations were modestly lower than the prior quarter, principally reflecting the lower prices to North America. BCTMP unit sales realizations showed a modest increase from the previous quarter as BCTMP prices edged upwards in the latter part of the quarter.

Compared to the fourth quarter of 2018, the Company's average NBSK pulp unit sales realizations were well down, primarily driven by the US$217 per tonne, or 27%, decrease in the average US-dollar NBSK pulp list price to China, combined with a decline in the average US-dollar price to North America by US$313 per tonne (before discounts), or 22%. Average BCTMP unit sales realizations also showed a sharp decline compared to the fourth quarter of 2018, reflecting lower BCTMP US-dollar pricing in the current quarter.

Energy revenues were up compared to the third quarter of 2019, principally reflecting seasonally higher energy prices combined with an increase in operating days in the current quarter, following the downtime taken in the summer months. Compared to the fourth quarter of 2018, energy revenues were up significantly, primarily due to the increased power generation at the Northwood pulp mill and additional operating days in the current quarter.

Operations

Pulp production was 286,000 tonnes for the fourth quarter of 2019, up 112,000 tonnes, or 64%, from the third quarter of 2019, largely reflecting phased summer curtailments taken in the previous quarter, offset in part by an extended market-related curtailment in early October at the Company's PG Pulp mill. To a lesser extent, improved productivity at the Company's PG Pulp mill and at its Taylor BCTMP mill, which set a new record-high for production in the current quarter, largely offset kiln-related operational disruptions at the Company's Northwood and Intercontinental pulp mills in December.

Compared to the fourth quarter of 2018, pulp production was up 62,000 tonnes, or 28%, primarily reflecting the Company's extended Northwood recovery boiler maintenance outage in the comparative period.

Pulp unit manufacturing costs were down significantly compared to both comparative quarters, primarily reflecting increased production offset, in part, by seasonally higher energy costs. Fibre costs were slightly lower than the third quarter of 2019 and significantly lower than the fourth quarter of 2018, principally driven by lower market-based prices for sawmill residual chips (linked to falling Canadian dollar NBSK pulp sales realizations), which more than offset an increased proportion of higher-cost whole log chips, reflecting ongoing sawmill-related fibre supply disruptions.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars, unless otherwise noted)	Q4 2019	Q3 2019	Q4 2018
Sales	**$ 34.2**	$ 37.1	$ 46.1
Operating income before amortization[18]	**$ 5.8**	$ 4.8	$ 4.4
Operating income	**$ 5.0**	$ 3.9	$ 3.5
Production – paper (000 mt)	**28**	28	36
Shipments – paper (000 mt)	**26**	27	32

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.
[18] Amortization includes amortization of certain capitalized major maintenance costs.

Markets

Global kraft paper markets continued to remain weak through the fourth quarter of 2019 in most key markets, particularly for bleached kraft paper.

Sales

The Company's paper shipments in the fourth quarter of 2019 were 26,000 tonnes, broadly in line with the previous quarter. Compared to the fourth quarter of 2018 paper shipments were down 6,000 tonnes, or 19%, principally reflecting lower production at the PG pulp and paper mill in the current quarter.

Paper unit sales realizations in the fourth quarter of 2019 were moderately lower than the previous quarter and significantly lower than the same quarter of 2018, primarily reflecting sustained weak US-dollar prices throughout most of the current period.

Operations

Paper production for the fourth quarter of 2019 was 28,000 tonnes, broadly in line with the prior quarter, and down 8,000 tonnes, or 22%, from the fourth quarter of 2018, principally due to the quarter-over-quarter impact of downtime, which in the current quarter related to a two week market-related curtailment at the beginning of October, a continuation from the prior quarter.

Paper unit manufacturing costs were moderately lower than the third quarter of 2019 reflecting lower slush pulp costs associated with the decreased Canadian dollar NBSK pulp unit sales realizations, combined with lower unit manufacturing costs in the current quarter, principally driven by the scheduled maintenance outage completed in the previous quarter. Compared to the fourth quarter of 2018 paper unit manufacturing costs showed a significant decline principally due to materially lower slush pulp costs, offset in part by the impact of the downtime, which contributed to higher paper unit manufacturing costs in the current quarter.

Unallocated Items

(millions of Canadian dollars)		**Q4 2019**		Q3 2019		Q4 2018
Corporate costs	**$**	**(1.7)**	$	(2.4)	$	(3.1)
Finance expense, net	**$**	**(1.6)**	$	(1.6)	$	(0.9)
Other income (expense), net	**$**	**(1.5)**	$	1.2	$	4.8

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.

Corporate costs were $1.7 million for the fourth quarter of 2019, down $0.7 million when compared to the third quarter of 2019, and down $1.4 million when compared to the fourth quarter of 2018, largely reflecting reduced head office and general administrative expenses in the current quarter.

Net finance expense for the fourth quarter of 2019 was $1.6 million, in line with the third quarter of 2019 and up $0.7 million when compared to the fourth quarter of 2018. The increase when compared to the fourth quarter of 2018 largely reflected lower interest earned as a result of reduced cash balances held throughout the current quarter, combined with higher interest expense associated with the Company's new non-revolving term loan entered into on September 30, 2019.

Other expense, net, of $1.5 million for the fourth quarter of 2019 principally related to unfavourable foreign exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income (Loss)

In the fourth quarter of 2019, the Company recorded a gain of $0.1 million (before tax) related to changes in the valuation of the Company's employee future benefits plans, 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.

This compared to a gain of $1.0 million (before tax) recognized in the third quarter of 2019, which primarily reflected a higher than anticipated return on plan assets, and, to a lesser extent, lower interest and service costs associated with the 50% reduction in MSP premiums in the second quarter of 2019, following a change in legislation in BC.

In the fourth quarter of 2018, the Company recorded a gain of $1.5 million (before tax) largely as a result of lower than anticipated returns on plan assets.

Summary of Financial Position

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

(millions of Canadian dollars)		Q4 2019		Q3 2019		Q4 2018
Increase (decrease) in cash and cash equivalents	**$**	**(13.4)**	$	19.8	$	(198.5)
Operating activities	**$**	**5.2**	$	1.3	$	(4.9)
Financing activities	**$**	**8.5**	$	44.3	$	(151.7)
Investing activities	**$**	**(27.1)**	$	(25.8)	$	(41.9)

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.

Operating Activities

Cash generated from operating activities was $5.2 million in the fourth quarter of 2019, up $3.9 million from the previous quarter and up $10.1 million from the fourth quarter of 2018. The increase in operating cash flows compared to the previous quarter principally reflected higher cash earnings in the current period, more than offsetting a build in finished pulp inventories to more normal levels, combined with timing-related decrease in accounts payable and accrued liabilities. Compared to the fourth quarter of 2018, the increase in operating cash flows reflected lower income tax installment payments and favourable movements in non-cash working capital balances in the current period, which more than offset the material decrease in cash earnings.

Financing Activities

Cash generated from financing activities in the fourth quarter of 2019 was $8.5 million, compared to cash generated of $44.3 million in the third quarter of 2019 and cash used of $151.7 million in the fourth quarter of 2018. Cash generated by financing activities in the current quarter 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). Financing activities in the third quarter of 2019 included to the receipt of a $50.0 million term loan, partially offset by payment of a quarterly dividend of $4.1 million ($0.0625 per common share). Cash used for financing activities in the fourth quarter of 2018 included the payment of a special dividend ($2.25 per common share) in addition to the quarterly dividend, which combined, totaled $150.9 million.

Investing Activities

Cash used for investing activities of $27.1 million in the current quarter primarily related to capital expenditures associated with several capital projects including the construction of a raw water treatment plant at the Company's Intercontinental NBSK pulp mill (scheduled to be completed by the end of 2020).

OUTLOOK

Pulp Markets

Recognizing the challenging markets, the Company launched a $40 million cost reduction initiative at the beginning of 2020, aimed at reducing unit manufacturing costs. Most of the savings will be achieved through improving reliability, reducing overhead cost and improving fibre utilization, with the full amount of annualized savings targeted by the end of 2021.

Looking forward, while global softwood kraft pulp markets are projected to remain fairly challenging for the first part of 2020, market conditions and prices should gradually improve through the balance of the year as global inventories become more in-line with demand. The potential impact of the emerging coronavirus on global pulp demand, particularly from China, is uncertain, and the Company continues to monitor the situation. Given the fibre dynamics in the BC Interior, fibre costs are projected to remain under pressure, particularly for incremental pulp log supply. On a more positive note, however, as a result of additional sawmill residual and pulp log fibre supply secured in the latter part of 2019, the Company is not currently anticipating any material fibre-related curtailments in 2020.

The Company has no maintenance outages planned for the first quarter of 2020. A maintenance outage is currently planned at the Northwood NBSK pulp mill in the second quarter of 2020 with a projected 30,000 tonnes of reduced NBSK pulp production. In addition, maintenance outages are scheduled at the Intercontinental NBSK pulp mill and the Taylor BCTMP mill in the third quarter of 2020 with a projected 10,000 tonnes of reduced NBSK pulp production and a projected 5,000 tonnes of reduced BCTMP production, respectively.

Paper Markets

Bleached kraft paper demand is currently anticipated to stabilize in the first half of 2020 as inventories within the market return to more normalized levels.

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. 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 increase, 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, 2019		December 31, 2018	
	Defined Benefit Pension Plans	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Discount rate	**3.0%**	**3.0%**	3.6%	3.6%
Rate of compensation increases	**3.0%**	**n/a**	3.0%	n/a
Initial medical cost trend rate	**n/a**	**5.5%**	n/a	5.5%
Ultimate medical cost trend rate	**n/a**	**4.5%**	n/a	4.5%
Year ultimate rate is reached	**n/a**	**2022**	n/a	2022

Assumed discount rates and medical cost trend rates 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, 2019 and December 31, 2018 is between 21.1 years and 24.2 years. As at December 31, 2019, the weighted average duration of the defined benefit plan obligation, which reflects the average age of the plan members, is 12.8 years (December 31, 2018 - 12.0 years). The weighted average duration of the other benefit plans is 13.7 years (December 31, 2018 – 13.3 years).

See "Liquidity and Financial Requirements" section for further discussion regarding the funding position of CPPI's pension plans.

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 1 to 32 years and have been discounted at risk-free rates ranging from 1.7% to 1.8%. 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 2019 or 2018.

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 reevaluates 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 the finished goods inventories based on actual and forecasted sales orders. Based on these estimates, net write-downs of the Company's finished pulp and raw materials inventories from cost to net realizable totaled $10.7 million at December 31, 2019 (December 31, 2018 – nil).

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 2019 were approximately $103.0 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.

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 2019, approximately 70% of the fibre used by the Company was derived from the Fibre Supply Agreements with Canfor. 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 2019, the Company's top five customers accounted for approximately 34% of its pulp 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

CPPI paid quarterly dividends of $0.0625 per common share through 2019 and currently anticipates to continue to pay a comparable level of dividends through 2020. There is no assurance that the dividends will be maintained at this level and the market value of CPPI shares may fluctuate depending on the amount of dividends paid in the future. The board of directors retains the discretion to change the policy at any time and reviews the policy on a quarterly basis.

On February 20, 2020, the board of directors declared a quarterly dividend of $0.0625 per share, payable on March 11, 2020, to the shareholders of record on March 4, 2020.

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, 2017.

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 $11.9 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation by an estimated $14.8 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. 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. The 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, 2019 is $6.0 million.

CPPI utilizes credit insurance to manage the risk associated with trade accounts receivables. As at December 31, 2019, approximately 77% 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, 2019 is $81.5 million before a loss allowance of $1.0 million. At December 31, 2019, 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 committed operating loan facility and term loan.

At December 31, 2019, CPPI had $14.0 million drawn on its operating loan facility, accounts payable and accrued liabilities of $142.2 million, and long-term debt of $50.0 million repayable on September 30, 2022.

(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 $0.9 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.

(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, 2019 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 2019 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 [19]	$ 10
BCTMP – US$10 change per tonne [19]	$ 3
Natural gas cost – $1 change per gigajoule	$ 9
Chip cost – $1 change per tonne	$ 3
Canadian dollar – US$0.01 change per Canadian dollar[20]	$ 7

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

Governmental 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.

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 the *Declaration on the Rights of Indigenous Peoples Act* and the Willian decision on the timber supply from Crown lands is unknown at this time; and the Company does not know if the decision will lead to changes in BC 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 and criminal 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 Prince George operations in 2017; the new labour agreements 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 a pricing formula 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 one of 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 20, 2020 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 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, 2019, and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of ICFR, and confirm that there were no changes in these controls that occurred during the year ended December 31, 2019 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, 2019, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2019 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 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 20, 2020

Don B. Kayne
Chief Executive Officer

Alan Nicholl
Chief Financial Officer

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 "Company"), which comprise:

– the consolidated balance sheets as at December 31, 2019 and December 31, 2018;

– the consolidated statements of income (loss) for the years then ended;

– the consolidated statements of other comprehensive income (loss) 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 Company as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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 Company 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.

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 "2019 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 2019 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 for the financial statements.

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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance for the financial statements are responsible for overseeing the Company'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 Company'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 Company'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 Company 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 for the financial statements 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.

KPMG LLP

Chartered Professional Accountants

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

Vancouver, Canada
February 20, 2020

Canfor Pulp Products Inc.
Consolidated Balance Sheets

(millions of Canadian dollars)	As at December 31, 2019	As at December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	**$ 6.0**	$ 6.9
Accounts receivable - Trade	**80.5**	107.6
- Other	**6.6**	11.4
Income taxes receivable	**29.7**	5.4
Inventories (Note 5)	**193.7**	207.1
Prepaid expenses and other	**14.8**	11.9
Total current assets	**331.3**	350.3
Property, plant and equipment and intangible assets (Note 6)	**580.8**	578.2
Right-of-use assets (Note 7(a))	**2.5**	-
Other long-term assets	**6.2**	3.5
Total assets	**$ 920.8**	$ 932.0
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	**$ 142.2**	$ 182.0
Operating loan (Note 9)	**14.0**	-
Current portion of lease obligations (Note 7(b))	**1.0**	-
Total current liabilities	**157.2**	182.0
Long-term debt (Note 10)	**50.0**	-
Lease obligations (Note 7(b))	**1.9**	-
Retirement benefit obligations (Note 11)	**68.6**	80.0
Other long-term provisions (Note 12)	**7.1**	6.6
Deferred income taxes, net (Note 15)	**77.7**	66.8
Total liabilities	**$ 362.5**	$ 335.4
EQUITY		
Share capital (Note 13)	**$ 480.8**	$ 480.9
Retained earnings	**77.5**	115.7
Total equity	**$ 558.3**	$ 596.6
Total liabilities and equity	**$ 920.8**	$ 932.0

Commitments and Contingencies (Note 19) and **Subsequent Event** (Note 24)

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

APPROVED BY THE BOARD

"S.E. Bracken-Horrocks"	*"C.A. Pinette"*
Director, S.E. Bracken-Horrocks	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, 2019	2018
Sales	**$ 1,087.9**	$ 1,374.3
Costs and expenses		
Manufacturing and product costs	**854.7**	870.9
Freight and other distribution costs	**145.5**	145.4
Amortization	**92.9**	79.6
Selling and administration costs	**25.8**	31.8
	1,118.9	1,127.7
Operating income (loss)	**(31.0)**	246.6
Finance expense, net (Note 14)	**(6.6)**	(4.2)
Other income (expense), net	**(4.0)**	8.7
Net income (loss) before income taxes	**(41.6)**	251.1
Income tax recovery (expense) (Note 15)	**11.1**	(66.7)
Net income (loss)	**$ (30.5)**	$ 184.4
Net income (loss) per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 13)	**$ (0.47)**	$ 2.83

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, **2019**	2018
Net income (loss)	**$ (30.5)**	$ 184.4
Other comprehensive income		
Items that will not be recycled through net income (loss):		
Defined benefit plan actuarial gains (Note 11)	**12.2**	5.5
Income tax expense on defined benefit plan actuarial gains (Note 15)	**(3.3)**	(1.5)
Other comprehensive income, net of tax	**8.9**	4.0
Total comprehensive income (loss)	**$ (21.6)**	$ 188.4

Consolidated Statements of Changes in Equity

(millions of Canadian dollars)	Years ended December 31, **2019**	2018
Share capital		
Balance at beginning of year	**$ 480.9**	$ 480.9
Share purchases (Note 13)	**(0.1)**	-
Balance at end of year	**$ 480.8**	$ 480.9
Retained earnings		
Balance at beginning of year	**$ 115.7**	$ 90.5
Net income (loss)	**(30.5)**	184.4
Defined benefit plan actuarial gains, net of tax	**8.9**	4.0
Dividends declared (Note 23)	**(16.4)**	(163.2)
Impact of change in accounting policy (Notes 4 and 7)	**(0.1)**	-
Share purchases (Note 13)	**(0.1)**	-
Balance at end of year	**$ 77.5**	$ 115.7
Total equity	**$ 558.3**	$ 596.6

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, **2019**	2018
Cash generated from (used in):		
Operating activities		
Net income (loss)	**$ (30.5)**	$ 184.4
Items not affecting cash:		
Amortization	**92.9**	79.6
Income tax expense (recovery)	**(11.1)**	66.7
Employee future benefits expense	**3.5**	4.0
Finance expense, net	**6.6**	4.2
Other, net	**0.3**	(1.1)
Defined benefit plan contributions, net	**(5.4)**	(6.6)
Income taxes paid, net	**(4.6)**	(90.4)
	51.7	240.8
Net change in non-cash working capital (Note 16)	**7.7**	(25.6)
	59.4	215.2
Financing activities		
Payment of lease obligations (Note 7(b))	**(1.1)**	-
Increase in operating loan (Note 9)	**14.0**	-
Proceeds from long-term debt (Note 10)	**50.0**	-
Finance expenses paid	**(3.8)**	(3.3)
Dividends paid (Note 23)	**(16.4)**	(163.2)
Share purchases (Note 13)	**(0.2)**	(0.1)
	42.5	(166.6)
Investing activities		
Additions to property, plant and equipment and intangible assets, net (Note 6)	**(103.0)**	(120.5)
Other, net	**0.2**	2.1
	(102.8)	(118.4)
Decrease in cash and cash equivalents*	**(0.9)**	(69.8)
Cash and cash equivalents at beginning of year*	**6.9**	76.7
Cash and cash equivalents at end of year*	**$ 6.0**	$ 6.9

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

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

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, 2019 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, 2019, and February 20, 2020, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI, unchanged from December 31, 2018.

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 20, 2020.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following material items:

- Financial instruments classified as measured at fair value;
- Asset retirement obligations measured at the discounted value of expected future cash flows; and
- The retirement benefit surplus and obligations related to the defined benefit pension plans, measured net of the accrued benefit obligations and the fair value of the plan assets.

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 5 – Inventories;
- Note 6 – Property, Plant and Equipment and Intangible Assets;
- Note 7 – Leases;
- Note 11 – Employee Future Benefits;
- Note 12 – Asset Retirement Obligations;
- Note 15 – Income Taxes; and
- Note 22 – Licella Pulp Joint Venture.

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 unpresented cheques. When the amount of unpresented 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 long-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
Long-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 ("OCI"). On derecognition, gains and losses accumulated in OCI 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 OCI. 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. 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. 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). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Leases

Policy applicable from January 1, 2019

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 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 relates to 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 of 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 reviewed for impairment 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 using the projected unit credit method. Under the projected unit credit method, 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, 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. Change in Significant Accounting Policy

Effective January 1, 2019, the Company adopted IFRS 16 *Leases* ("IFRS 16"), which supersedes IAS 17 *Leases* ("IAS 17") and related interpretations. Under IAS 17, leases were previously classified as either operating or financing for lessees based on an assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. As the Company's leases were previously classified as operating, straight-line operating lease expense was recognized over the lease term in the comparative period.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees, with a ROU asset representing the Company's right to use the underlying asset, and a lease obligation representing its obligation to make lease payments. Amortization expense for ROU assets and interest expense for lease obligations replaces the straight-line operating lease expense recognized under IAS 17.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Short-term and low-value recognition exemptions were applied, as well as certain practical expedients allowing for the use of hindsight to assess the lease term for contracts with extension options, the exclusion of initial direct costs from measurement of the ROU asset and the exclusion of leases with a term of less than one year remaining at the transition date.

The impact of transition is outlined under Note 7, with changes in accounting policies, effective January 1, 2019, included in Note 3.

5. Inventories

(millions of Canadian dollars)		**As at December 31, 2019**		As at December 31, 2018
Pulp	**$**	**72.8**	$	83.2
Paper		**29.7**		22.2
Wood chips and logs		**35.9**		48.3
Materials and supplies		**55.3**		53.4
	$	**193.7**	$	207.1

The above inventory balances are stated at the lower of cost and net realizable value. For the year ended December 31, 2019, a net $10.7 million inventory write-down expense was recognized (December 31, 2018 – nil), resulting in an inventory provision for finished pulp and raw materials of $10.7 million at December 31, 2019 (December 31, 2018 – nil).

Inventory expensed in 2019 and 2018 includes manufacturing and product costs and amortization.

6. 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, 2018	$ 5.4	$ 1,568.4	$ 39.6	$ 43.7	$ 11.7	$ 1,668.8
Additions[1]	-	-	0.4	113.3	18.7	132.4
Disposals	-	(32.3)	(22.4)	-	(1.7)	(56.4)
Transfers	-	98.2	41.0	(139.2)	-	-
Balance at December 31, 2018	$ 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

(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
Amortization						
Balance at January 1, 2018	$ -	$ (1,117.3)	$ (19.5)	$ -	$ (5.3)	$ (1,142.1)
Amortization for the year	-	(56.8)	(22.3)	-	(0.5)	(79.6)
Disposals	-	31.0	22.4	-	1.7	55.1
Balance at December 31, 2018	$ -	$ (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)
Carrying Amounts						
At January 1, 2018	$ 5.4	$ 451.1	$ 20.1	$ 43.7	$ 6.4	$ 526.7
At December 31, 2018	$ 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**

[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.

7. Leases

The Company's leased assets include land, buildings, vehicles, machinery and equipment. Effective January 1, 2019, the Company adopted IFRS 16 as outlined in Note 4, recognizing $3.3 million of ROU assets and $3.4 million of lease obligations, with the difference of $0.1 million recognized in retained earnings.

The following table reconciles the Company's lease commitments disclosed in the consolidated financial statements as at and for the year ended December 31, 2018, to the lease obligations recognized on initial application of IFRS 16:

(millions of Canadian dollars)	
Operating lease commitments at December 31, 2018	$ 1.7
Recognition exemption for short-term and low-value leases	(0.1)
Discounted using the incremental borrowing rate at January 1, 2019	(0.2)
Lease remeasurements and other transitional adjustments	2.0
Lease obligations recognized at January 1, 2019	$ 3.4

Lease obligations were measured at the present value of remaining lease payments at the transition date, discounted at the Company's incremental borrowing rate. The weighted average incremental borrowing rate applied at January 1, 2019 was 4.2%.

(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
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)
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**

(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, 2019
Within one year	$	1.1
Between one and five years		2.0
Beyond five years		0.2
Total undiscounted lease obligations	$	3.3

Discounted lease obligations recognized on the Company's consolidated balance sheet are as follows:

(millions of Canadian dollars)		
Current	$	1.0
Non-current		1.9
Total discounted lease obligations	$	2.9

Interest expense on lease obligations for 2019 was $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 2019 was $0.6 million.

Total cash outflows for leases in 2019 were $1.7 million, including $0.6 million for short-term and low-value leases.

8. Accounts Payable and Accrued Liabilities

(millions of Canadian dollars)		As at December 31, 2019		As at December 31, 2018
Trade payables and accrued liabilities	$	108.4	$	137.1
Accrued payroll and related liabilities		33.8		44.9
	$	142.2	$	182.0

9. Operating Loan

(millions of Canadian dollars)		As at December 31, 2019		As at December 31, 2018
Operating loan facility	$	110.0	$	110.0
Letters of credit		(13.2)		(11.1)
Operating loan facility drawn		(14.0)		-
Total available operating loan facility	$	82.8	$	98.9

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, 2019, the Company is fully in compliance with all covenants relating to its operating loan facility.

10. Long-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, 2019, the Company was fully in compliance with all covenants relating to its long-term debt.

Fair value of total long-term debt

At December 31, 2019, the fair value of the Company's long-term debt approximates its amortized cost of $50.0 million (December 31, 2018 - nil).

11. 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 2019 were $15.9 million (December 31, 2018 - $17.0 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, 2019, CPPI has one registered defined benefit pension plan for which an actuarial valuation is performed at least every three years. The largest pension plan underwent an actuarial valuation for funding purposes as of December 31, 2017, which was completed in 2018. The next actuarial valuation for funding purposes is currently scheduled for December 31, 2020, to be completed in 2021. In addition, CPPI has other non-contributory benefit plans that provide certain non-pension post-retirement benefits to its members. The other non-contributory plans also underwent an actuarial valuation as of December 31, 2017, which was completed in 2018.

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

Fair market value of plan assets	**2019**		2018	
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Beginning of year	**$ 126.7**	**$ -**	$ 130.1	$ -
Interest income on plan assets	**4.6**	**-**	4.4	-
Return on plan assets greater (less) than discount rate	**12.8**	**-**	(8.1)	-
Employer contributions	**3.7**	**1.7**	5.0	1.6
Employee contributions	**0.1**	**-**	0.1	-
Benefit payments	**(4.5)**	**(1.7)**	(4.7)	(1.6)
Administration expense	**(0.1)**	**-**	(0.1)	-
End of year	**$ 143.3**	**$ -**	$ 126.7	$ -

Plan assets consist of the following:	**As at December 31, 2019**	As at December 31, 2018
Asset category	Percentage of Plan Assets	
Equity securities	**16%**	14%
Debt securities	**28%**	26%
Annuities	**56%**	60%
Cash and cash equivalents	**0%**	0%
	100%	100%

Accrued benefit obligations

(millions of Canadian dollars)	**2019** Defined Benefit Pension Plans	**2019** Other Benefit Plans	2018 Defined Benefit Pension Plans	2018 Other Benefit Plans
Beginning of year	**$ 155.7**	**$ 49.2**	$ 158.8	$ 54.9
Current service cost	**2.6**	**0.8**	2.8	1.3
Interest cost	**5.5**	**1.5**	5.3	1.8
Employee contributions	**0.1**	**-**	0.1	-
Benefit payments	**(4.5)**	**(1.7)**	(4.7)	(1.6)
Actuarial loss (gain)	**14.9**	**(14.3)**	(6.6)	(7.0)
Other	**-**	**-**	-	(0.2)
End of year	**$ 174.3**	**$ 35.5**	$ 155.7	$ 49.2

Of the defined benefit pension plan obligation of $174.3 million (December 31, 2018 - $155.7 million), $157.5 million (December 31, 2018 - $140.2 million) relates to plans that are wholly or partly funded and $16.8 million (December 31, 2018 - $15.5 million) relates to plans that are wholly unfunded, with letters of credit securing $6.0 million (December 31, 2018 - $4.4 million) of the unfunded liability.

The total obligation for the non-pension post-retirement benefit plans of $35.5 million (December 31, 2018 - $49.2 million) is unfunded.

Annuity contracts

In 2018, the Company purchased $8.9 million of buy-in annuities through its defined benefit pension plans, increasing total annuities purchased to $86.0 million at December 31, 2018. Transaction costs of $0.7 million related to the purchases were recognized in other comprehensive income in 2018, principally reflecting the difference in the annuity rate compared to the discount rate used to value the obligations on a going concern basis.

In 2019, no buy-in annuities were purchased by the Company. 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. The 50% reduction in MSP in the second quarter of 2019, when combined with the initial 50% reduction recognized in the fourth quarter of 2017, resulted in a gain of $56.7 million, or $0.87 per common share ($41.8 million after tax, or $0.64 per common share), reflected as a reduction in the Company's non-pension post-retirement benefit obligation.

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

(millions of Canadian dollars)	**December 31, 2019** Defined Benefit Pension Plans	**December 31, 2019** Other Benefit Plans	December 31, 2018 Defined Benefit Pension Plans	December 31, 2018 Other Benefit Plans
Fair market value of plan assets	**$ 143.3**	**$ -**	$ 126.7	$ -
Accrued benefit obligations	**(174.3)**	**(35.5)**	(155.7)	(49.2)
Funded status of plans – deficit	**(31.0)**	**(35.5)**	(29.0)	(49.2)
Other pension plans	**(2.1)**	**-**	(1.8)	-
Total accrued benefit liability, net	**$ (33.1)**	**$ (35.5)**	$ (30.8)	$ (49.2)

Components of pension cost

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

	2019		2018	
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Recognized in net income (loss)				
Current service cost	**$ 2.6**	**$ 0.8**	$ 2.8	$ 1.3
Administrative cost	**0.1**	**-**	0.1	-
Interest cost	**0.9**	**1.5**	0.9	1.8
Other	**-**	**-**	-	(0.2)
Total expense included in net income (loss)	**$ 3.6**	**$ 2.3**	$ 3.8	$ 2.9
Recognized in other comprehensive income				
Actuarial loss (gain) – experience	**$ 2.1**	**$ (0.1)**	$ (2.2)	$ (4.1)
Actuarial loss (gain) – financial assumptions	**12.8**	**4.7**	(4.4)	(2.9)
Actuarial gain – elimination of MSP	**-**	**(18.9)**	-	-
Return on plan assets less (greater) than discount rate	**(12.8)**	**-**	8.1	-
Total loss (gain) in other comprehensive income	**$ 2.1**	**$ (14.3)**	$ 1.5	$ (7.0)

Significant assumptions

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

	December 31, 2019		December 31, 2018	
	Defined Benefit Pension Plans	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Discount rate	**3.0%**	**3.0%**	3.6%	3.6%
Rate of compensation increases	**3.0%**	**n/a**	3.0%	n/a
Initial medical cost trend rate	**n/a**	**5.5%**	n/a	5.5%
Ultimate medical cost trend rate	**n/a**	**4.5%**	n/a	4.5%
Year ultimate rate is reached	**n/a**	**2022**	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, 2019 and December 31, 2018 is between 21.1 years and 24.2 years. As at December 31, 2019, the weighted average duration of the defined benefit plan obligation, which reflects the average age of the plan members, is 12.8 years (December 31, 2018 - 12.0 years). The weighted average duration of the other benefit plans is 13.7 years (December 31, 2018 - 13.3 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 hedging impact of plan annuity assets, for 2019:

(millions of Canadian dollars)	1% Increase	1% Decrease
Defined benefit pension plan liabilities, net of annuity assets		
Discount rate	$ (11.9)	$ 14.8
Other benefit plan liabilities		
Discount rate	$ (4.3)	$ 5.3
Initial medical cost trend rate	$ 1.7	$ (1.8)

When taking into account the impact of hedging, 46% (December 31, 2018 - 49%) 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% (December 31, 2018 - 20%) is partially hedged through the plan's investment in debt securities.

As at December 31, 2019, contribution payments of $4.5 million are estimated to be made to the Company's defined benefit pension plans in 2020 based on the last actuarial valuation for funding purposes.

Defined contribution and other plans

The total expense recognized in 2019 for CPPI's defined contribution plans was $2.9 million (December 31, 2018 - $2.8 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 $7.6 million in 2019 (December 31, 2018 - $7.6 million).

12. Asset Retirement Obligations

The following table provides a reconciliation of the asset retirement obligations as at December 31, 2019 and December 31, 2018:

(millions of Canadian dollars)		**2019**		2018
Asset retirement obligations at beginning of year	**$**	**6.0**	$	5.5
Accretion expense		**0.1**		0.1
Changes in estimates		**0.5**		0.4
Asset retirement obligation at end of year	**$**	**6.6**	$	6.0

CPPI's asset retirement obligations represent estimated undiscounted future payments of $9.3 million to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur at periods ranging from 1 to 32 years and have been discounted at risk-free rates ranging from 1.7% to 1.8% (December 31, 2018 - 1.9% to 2.2%).

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 balance sheet.

13. Share Capital

Authorized

Unlimited number of common shares, no par value.

Issued and fully paid

	2019			2018		
(millions of Canadian dollars, except number of shares)	**Number of Shares**		**Amount**	Number of Shares		Amount
Common shares at beginning of year	**65,250,759**	**$**	**480.9**	65,251,259	$	480.9
Common shares purchased	**(17,200)**		**(0.1)**	(500)		-
Common shares at end of year[3]	**65,233,559**	**$**	**480.8**	65,250,759	$	480.9

[3]Based 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.

Basic net income (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. The weighted average number of common shares outstanding for 2019 is 65,243,435 (December 31, 2018 - 65,250,763), and reflects common shares purchased under the Company's normal course issuer bid.

Normal course issuer bid

On March 4, 2019, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 3,262,537 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2019. The renewed normal course issuer bid is set to expire on March 6, 2020. The Company does not currently intend to renew the normal course issuer bid following its expiry.

In 2019, CPPI purchased 17,200 common shares at an average price of $10.67 per common share.

As at December 31, 2019 and February 20, 2020 there were 65,233,559 common shares of the Company outstanding, and Canfor's ownership interest in CPPI was 54.8% (December 31, 2018 – 54.8%).

14. Finance Expense, Net

(millions of Canadian dollars)		**2019**		2018
Interest expense on borrowings	**$**	**(3.9)**	$	(3.3)
Interest expense on retirement benefit obligations, net		**(2.4)**		(2.7)
Interest income		**0.1**		1.9
Other finance expenses		**(0.4)**		(0.1)
Finance expense, net	**$**	**(6.6)**	$	(4.2)

15. Income Taxes

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

(millions of Canadian dollars)		**2019**		2018
Current	**$**	**18.7**	$	(69.0)
Deferred		**(7.6)**		2.3
Income tax recovery (expense)	**$**	**11.1**	$	(66.7)

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

(millions of Canadian dollars)		**2019**		2018
Income tax recovery (expense) at statutory rate of 27.0% (2018 – 27.0%)				
Add (deduct):	**$**	**11.2**	$	(67.8)
Entities with different income tax rates and other tax adjustments		**-**		0.2
Permanent difference from capital gains and other non-deductible items		**(0.1)**		0.9
Income tax recovery (expense)	**$**	**11.1**	$	(66.7)

In addition, a tax expense of $3.3 million in relation to actuarial gains on the defined benefit plans (December 31, 2018 - expense of $1.5 million) was recorded in other comprehensive income for the year ended December 31, 2019.

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, 2019**		As at December 31, 2018
Deferred income tax assets				
Retirement benefit obligations	**$**	**18.0**	$	21.2
Other		**4.3**		3.6
	$	**22.3**	$	24.8
Deferred income tax liabilities				
Depreciable capital assets	**$**	**(99.2)**	$	(91.5)
Other		**(0.8)**	$	(0.1)
		(100.0)	$	(91.6)
Total deferred income taxes, net	**$**	**(77.7)**	$	(66.8)

16. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)		**2019**		2018
Accounts receivable	**$**	**28.1**	$	(2.4)
Inventories		**13.4**		(41.6)
Prepaid expenses and other		**(2.9)**		(2.9)
Accounts payable and accrued liabilities		**(30.9)**		21.3
Net change in non-cash working capital	**$**	**7.7**	$	(25.6)

17. Related Party Transactions

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

In 2019, the Company depended on Canfor to provide approximately 70% (December 31, 2018 - 66%) 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 $234.8 million in 2019 (December 31, 2018 - $252.8 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 2019 was $16.3 million (December 31, 2018 - $14.8 million). These amounts are 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 2019 was $3.5 million (December 31, 2018 - $4.0 million). These amounts are included as cost recoveries in manufacturing and product costs and selling and administration costs. At December 31, 2019, an outstanding balance of $19.3 million (December 31, 2018 - $31.6 million) was due to Canfor.

The Jim Pattison Group is Canfor's largest shareholder with an ownership interest of 50.9% at December 31, 2019 (December 31, 2018 – 50.9%). During 2019, CPPI sold paper to subsidiaries owned by The Jim Pattison Group totalling $3.7 million (December 31, 2018 - $3.0 million). CPPI also made purchases from subsidiaries owned by The Jim Pattison Group totalling $0.7 million (December 31, 2018 - $0.7 million). A nominal amount related to these sales or purchases were outstanding as at December 31, 2019 and December 31, 2018.

During 2019 and 2018, Canfor also made contributions to certain post-employment benefit plans for the benefit of CPPI employees and provided services to its joint venture with Licella Fibre Fuel Pty. Ltd. See Note 11, Employee Future Benefits, and Note 22, Licella Pulp Joint Venture, for further details.

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)		**2019**		2018
Short-term benefits	**$**	**1.3**	$	3.1
Post-employment benefits		**-**		0.1
	$	**1.3**	$	3.2

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

18. 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, 2019										
Sales from contracts with customers	**$**	**918.9**	**$**	**168.4**	**$**	**0.6**	**$**	**-**	**$**	**1,087.9**
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**
Year ended December 31, 2018										
Sales from contracts with customers	$	1,192.9	$	180.9	$	0.5	$	-	$	1,374.3
Sales to other segments		119.7		-		-		(119.7)		-
Operating income (loss)		248.9		11.0		(13.3)		-		246.6
Amortization		75.3		4.2		0.1		-		79.6
Capital expenditures[4]		113.3		3.7		3.5		-		120.5
Identifiable assets		841.7		66.1		24.2		-		932.0

[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 revenue based on the geographical location of CPPI's customers:

(millions of Canadian dollars)		**2019**		2018
Sales by location of customer				
Canada	**$**	**82.5**	$	81.0
Asia		**585.9**		840.9
United States		**317.6**		323.7
Europe		**46.0**		60.3
Other		**55.9**		68.4
	$	**1,087.9**	$	1,374.3

19. Commitments and Contingencies

At December 31, 2019, CPPI has contractual commitments for $63.9 million (December 31, 2018 - $11.8 million). The majority of these commitments are expected to be settled between one and five years. In addition, CPPI has committed to leases of property, plant and equipment as outlined under Note 7.

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.

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, 2019 the Company had posted $7.2 million of standby letters of credit (December 31, 2018 - $6.7 million) under these agreements, and had no repayment obligations under the terms of any of these agreements.

20. Financial Risk and Capital Management

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, 2019 is $6.0 million (December 31, 2018 - $6.9 million).

CPPI utilizes credit insurance to mitigate the risk associated with some of its trade accounts receivables. As at December 31, 2019, approximately 77% (December 31, 2018 - 78%) 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, 2019 is $81.5 million, before a loss allowance of $1.0 million (December 31, 2018 - $108.6 million and $1.0 million, respectively). At December 31, 2019, approximately 99% (December 31, 2018 - 98%) 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 long-term debt.

At December 31, 2019, CPPI had $14.0 million drawn on its operating loan facility (December 31, 2018 – nil), accounts payable and accrued liabilities of $142.2 million (December 31, 2018 - $182.0 million), and long-term debt of $50.0 million (December 31, 2018 – nil).

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 long-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 $0.9 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.

(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, 2019 and December 31, 2018, 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, 2019**		As at December 31, 2018
Total debt (including operating loan)	**$**	**64.0**	$	-
Less: Cash and cash equivalents		**(6.0)**		(6.9)
Net debt (cash)	**$**	**58.0**	$	(6.9)
Total equity		**558.3**		596.6
	$	**616.3**	$	589.7

The Company manages its capital structure through rigorous planning, budgeting and forecasting processes, and ongoing management of operations, investments and capital expenditures. In 2019, to meet CPPI's operating, growth and return on invested capital objectives, the Company's management of capital was comprised primarily of dividends, investment in the Company's operations, development of energy-related assets, and cost reduction initiatives. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

21. Financial Instruments

CPPI's cash and cash equivalents, trade and other accounts receivables, loans and advances, operating loan, long-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 long-term debt, approximate fair value at December 31, 2019.

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, 2019 and December 31, 2018, the Company had no derivative financial instruments outstanding.

22. Licella Pulp Joint Venture

In May 2016, CPPI and Licella Fibre Fuel Pty Ltd. ("Licella") agreed to form a joint venture under the name Licella Pulp Joint Venture to investigate opportunities to integrate Licella's Catalytic Hydrothermal Reactor platform into CPPI's pulp mills to economically convert biomass into next generation biofuels and biochemicals.

Under the terms of the joint venture agreement:

- CPPI agreed to bring its enterprise and knowledge surrounding kraft pulping processes, while Licella agreed to contribute its next generation bio-technology;
- CPPI's ownership interest in the joint venture is 10%, with the following rights to increase its interest:
    - After $20.0 million of initial contributions and the successful conclusion of a pre-feasibility study, culminating in the decision to build a first commercial bio-crude plant at the Company's Intercontinental NBSK pulp mill ("First Plant"), CPPI's interest increases to 20%;
    - Upon successful commissioning of the First Plant, CPPI's interest in the joint venture increases to 50%.

Under IFRS 11 *Joint Arrangements*, the joint venture is classified as a joint operation and CPPI will recognize its assets, liabilities and transactions, including its share of those incurred jointly, in its consolidated financial statements. Since forming the joint venture in May 2016, to December 31, 2019, CPPI has contributed $6.9 million (net of government funding) to the joint venture which has been recognized as a component of manufacturing and product costs.

23. Special Dividend

On November 13, 2018, the Company paid a special dividend of $146.8 million ($2.25 per share) to the shareholders of the Company. The special dividend was paid as a result of strong cash generated by the business in 2018.

24. Subsequent Event

On February 20, 2020, the Board of Directors declared a quarterly dividend of $0.0625 per share, payable on March 11, 2020, to the shareholders of record on March 4, 2020.

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, 2019 are as below. For more information visit www.canfor.com.

Stan Bracken-Horrocks, FCPA, FCA(1)(3)(5)
Corporate Director
Kelowna, British Columbia, Canada

William Stinson(1)(2)(4)(5)
Chairman and Chief Executive Officer
Westshore Terminals Investment Corporation
Vancouver, British Columbia, Canada

John Baird (1)(3)(4)(5)
Senior Advisor
Bennett Jones LLP
Toronto, Ontario, Canada

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

Donald Kayne
Chief Executive Officer
Canfor Pulp Products Inc.
Tsawwassen, British Columbia, 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, 2019 are as below. For more information visit www.canfor.com.

David Calabrigo, Q.C.
Senior Vice President, Corporate Development, Legal Affairs and Corporate Secretary
Vancouver, British Columbia, Canada

Donald Kayne
Chief Executive Officer
Tsawwassen, British Columbia, Canada

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

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

Conrad Pinette
Chairman
Vancouver, 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 23, 2020 at 12:30 p.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.

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