2020

MANAGEMENT'S DISCUSSION & ANALYSIS

CANFOR PULP PRODUCTS INC.

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

Throughout this discussion, reference is made to Operating Income (Loss) before Amortization which CPPI considers to be a relevant indicator for measuring trends in the Company's performance and its ability to generate funds to meet its debt repayment and capital expenditure requirements, and to pay dividends. Reference is also made to Adjusted Net Income (Loss) (calculated as Net Income (Loss) less specific items affecting comparability with prior periods – for the full calculation, see reconciliation included in the section "Overview of Consolidated Results – 2020 Compared to 2019") and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share are not generally accepted earnings measures under IFRS and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, CPPI's Operating Income (Loss) before Amortization, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income (Loss) before Amortization to Operating Income (loss) and Adjusted Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in this MD&A.

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

All financial references are in millions of Canadian dollars unless otherwise noted. Certain comparative amounts have been reclassified to conform to current presentation. The information in this report is as at February 24, 2021.

Forward-Looking Statements

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

COMPANY OVERVIEW

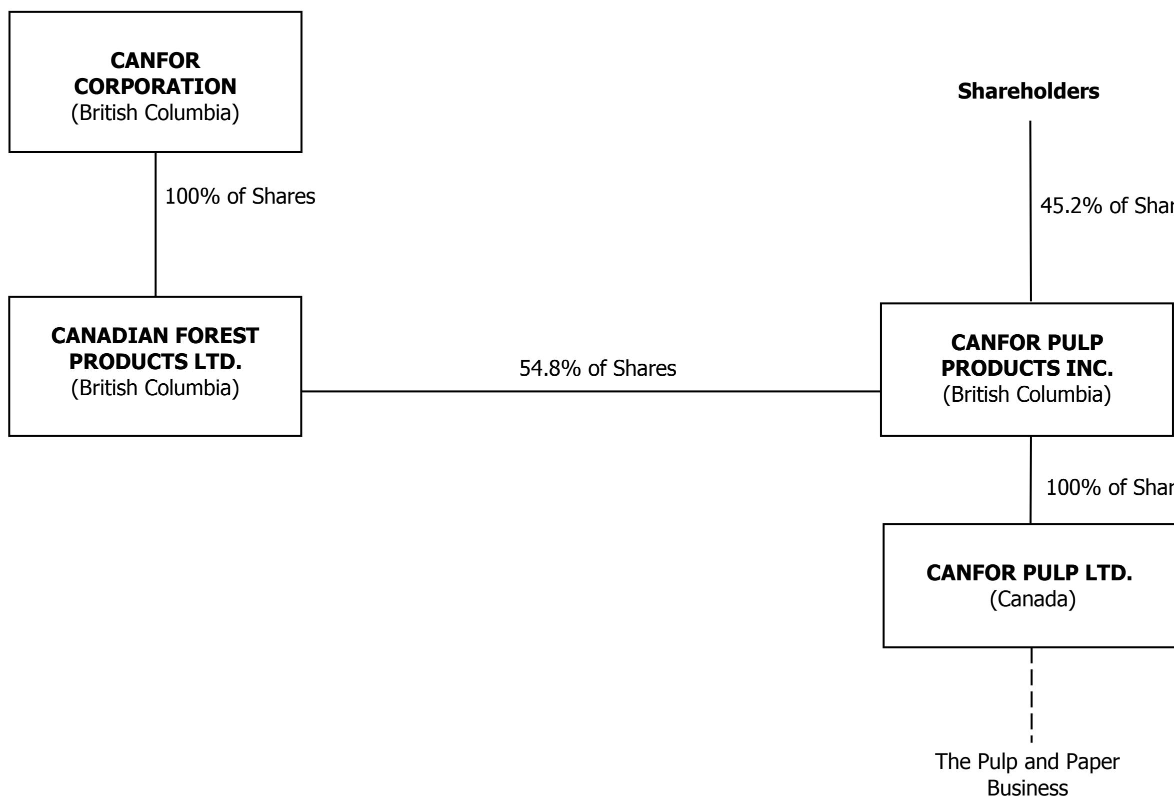
CPPI is a company incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The consolidated financial statements of the Company as at and for the year ended December 31, 2020 comprise the Company and its subsidiary entities. The Company's operations consist of two Northern Bleached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

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

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

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

Simplified Ownership Structure



Pulp

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

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

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

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

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

Paper

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

Business Strategy

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

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

OVERVIEW OF 2020

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

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

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

Prices to China, the world's largest consumer of market pulp, stayed within a narrow range for most of 2020. For the 2020 year as a whole, NBSK pulp list prices to China averaged US$588[1] per tonne, a decrease of US$24 per tonne, or 4%, from 2019, while North American NBSK pulp list prices averaged US$1,139[1] per tonne for 2020, down US$100 per tonne, or 8% from 2019 (before taking account of customer discounts, which were broadly unchanged year-over-year). BCTMP prices were relatively stable throughout 2020, with US-dollar prices to China falling US$3 per tonne, or 1%, year-over-year.

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

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

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

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

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

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

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

[1] Resource Information Systems, Inc.

Markets and Pricing

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

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

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

Reflecting the modest improvement in market conditions in the fourth quarter of 2020, global softwood pulp producer inventories ended 2020 at 35[2] days of supply, two days lower than a year earlier, and closer to the balanced range of 27-34 days.

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

Chart 1

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

Chart 2

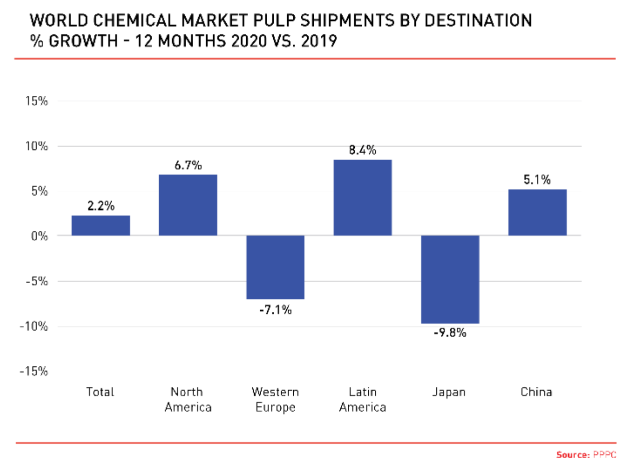
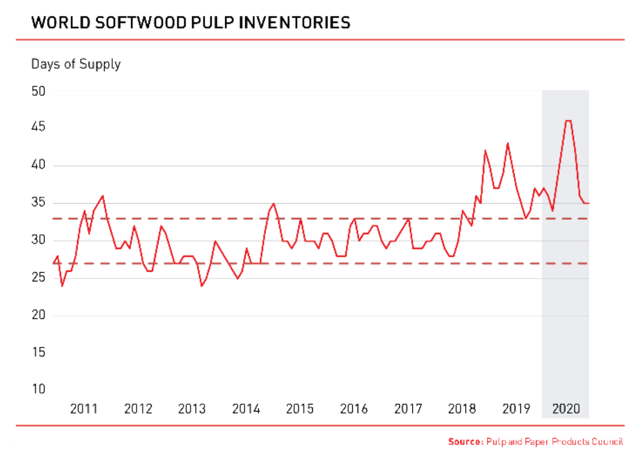


Chart 3



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

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

Fibre Supply

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

Following a challenging and constrained fibre supply environment in 2019, the Company's supply of sawmill residual chips once again came under significant pressure in 2020, particularly in the second quarter, this time mostly as a result of the onset of the global pandemic and extensive temporary sawmill curtailments in the BC Interior. The Company took a number of immediate actions in response to the sawmill downtime in BC, including the aforementioned phased curtailments at its PG facilities. Consequently, the Company's fibre mix included an increased proportion of higher-cost whole log chips. Management continues to be significantly focused on optimizing fibre procurement, as well as maximizing fibre utilization and recovery.

Capital and Operations Review

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

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

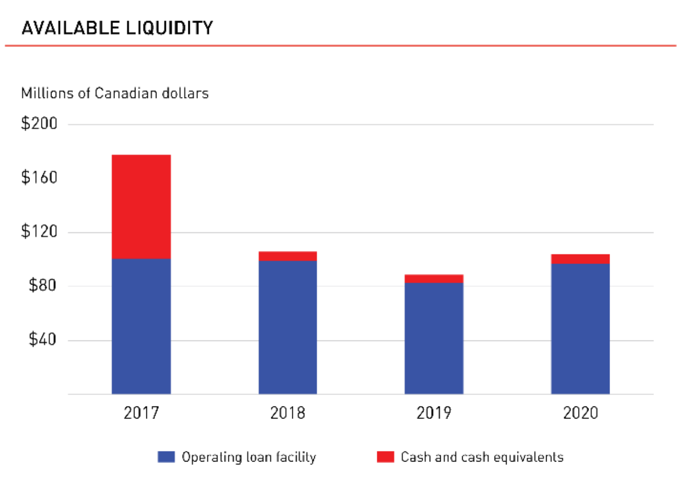
In light of the challenging market and operating conditions experienced in 2019, in early 2020 Management commenced a $40 million cost reduction initiative aimed at reducing unit manufacturing costs, through improving reliability, reducing overhead cost and improving fibre utilization. With the various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

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

Balance Sheet and Liquidity

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

Chart 4



Environmental, Social and Governance (“ESG”) Reporting

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

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

OVERVIEW OF CONSOLIDATED RESULTS – 2020 COMPARED TO 2019

Selected Financial Information and Statistics

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

[3] Amortization includes amortization of certain capitalized major maintenance costs.
[4] Adjusted for inventory write-downs and recoveries ($8.5 million net recovery in 2020; $10.7 million net write-down in 2019).
[5] Consolidated Return on Invested Capital (“ROIC”) is equal to operating income (loss) plus other income (expense), divided by the average invested capital during the period. Invested capital represents total assets excluding cash and total liabilities excluding term debt, retirement benefit obligations and deferred taxes.
[6] Source – Bank of Canada (monthly average rate for the period).

Selected Cash Flow Information

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

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

OPERATING RESULTS BY BUSINESS SEGMENT – 2020 COMPARED TO 2019

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

CPPI's operations include the Pulp and Paper segments.

Pulp

Selected Financial Information and Statistics – Pulp

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

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

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

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

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

Markets

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

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

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

Sales

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

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

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

Operations

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

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

Paper

Selected Financial Information and Statistics – Paper

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

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

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

Markets

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

Sales

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

Operations

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

Unallocated and Other Items

Selected Financial Information

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

Corporate Costs

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

Finance Expense, Net

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

Other Income (Expense), Net

Other income, net, of $30.7 million for 2020 primarily reflected insurance proceeds of $32.8 million, offset in part by unfavourable foreign exchange movements on US-dollar denominated working capital balances. The former is related to unscheduled downtime in 2018 at Northwood to enable necessary tube replacements to RB5, rectifying damage discovered during routine preventative maintenance inspections.

Income Tax Recovery

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

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

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

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

Other Comprehensive Income

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

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

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

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

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

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

SUMMARY OF FINANCIAL POSITION

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

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

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

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

CHANGES IN FINANCIAL POSITION

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

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

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

Operating Activities

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

Financing Activities

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

Investing Activities

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

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loan and Term Debt

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

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization, and is based on the lenders' Canadian prime rate, bankers acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin. The facility has certain financial covenants including a covenant based on maximum debt to total capitalization of the Company. On September 30, 2019, the maturity date of the Company's operating loan facility was extended from April 6, 2022 to April 6, 2023.

On September 30, 2019, the Company entered into a new non-revolving term loan for $50.0 million. The loan is repayable on September 30, 2022, with interest based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin. The term loan covenants are consistent with the Company's existing operating loan facility.

Debt Covenants

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

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

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

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

Normal Course Issuer Bid

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

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

2021 Projected Capital Spending and Debt Repayments

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

Derivative Financial Instruments

Subject to risk management policies approved by its Board of Directors, CPPI, from time to time, uses derivative instruments, such as forward exchange contracts and option contracts to hedge future movements of exchange rates and futures and forward contracts to hedge pulp prices, commodity prices and energy costs. See section "Financial Risk Management and Earnings Sensitivities" for further details. As at December 31, 2020 the Company had no derivative financial instruments outstanding.

Commitments

Contractual obligations the Company is committed to include:

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

TRANSACTIONS WITH RELATED PARTIES

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

In 2020, the Company depended on Canfor to provide approximately 68% of its fibre supply as well as certain key business and administrative services. As a result of these relationships, the Company considers its operations to be dependent on its ongoing relationship with Canfor. In 2018, the Company and Canfor entered into a new pricing agreement, which included a market-based chip pricing formula. The new pricing agreement was effective July 1, 2018, for a three-year term, to June 30, 2021.

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

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

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

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

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

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

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

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

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

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

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

THREE-YEAR COMPARATIVE REVIEW

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

FOURTH QUARTER RESULTS

Overview

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

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

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

Pulp

Selected Financial Information and Statistics – Pulp

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

[16] Amortization includes amortization of certain capitalized major maintenance costs.
[17] Per tonne, NBSK pulp list net price delivered to China (as published by Resource Information Systems, Inc. ("RISI")); Average NBSK pulp net price delivered to China in Cdn$ calculated as average NBSK pulp net price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.
[18] Effective January 1, 2020, all RISI China market pricing has changed from "Delivered to China – Effective list price" to "Delivered to China – Net price" as distributed through Fastmarkets RISI.

Markets

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

Global softwood pulp producer inventory levels improved as the current quarter progressed and at 35 days of supply in December 2020 (a decrease of 7 days from September 2020), were just above the balanced range; market conditions are generally considered balanced when inventories are in the 27-34 days of supply range.

Sales

The Company's pulp shipments for the fourth quarter of 2020 totaled 258,000 tonnes, up 9,000 tonnes, or 4%, from the third quarter of 2020 and down 9,000 tonnes, or 3%, from the fourth quarter of 2019. Increased shipments compared to the previous quarter principally reflected a drawdown of inventory in the current quarter during the aforementioned Northwood downtime and, to a lesser extent, the timing of vessels quarter-over-quarter. Compared to the fourth quarter of 2019, the decrease in pulp shipments primarily reflected lower production levels in the current quarter, offset in part by a drawdown in pulp inventories in the current quarter and a rebuild of pulp inventories in the comparative period.

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

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

Operations

Pulp production was 233,000 tonnes for the fourth quarter of 2020, up 6,000 tonnes, or 3%, from the third quarter of 2020, largely reflecting the quarter-over-quarter impact of downtime. In the current quarter, pulp production was reduced by the completion of Northwood's scheduled maintenance outage in October (approximately 25,000 tonnes), as well as the aforementioned extended outage on one production line at Northwood to enable the replacement of RB5's lower furnace (approximately 60,000 tonnes). In the third quarter of 2020, the combined impact of COVID-19 related curtailments at the Company's Intercontinental and PG pulp mills, as well as scheduled maintenance outages at Taylor and Northwood, reduced pulp production by 68,000 tonnes. To a lesser extent, improved productivity at the Company's PG and Taylor pulp mills in the current quarter more than offset several operational issues at the PG pulp mill in the prior quarter.

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

Pulp unit manufacturing costs were slightly lower than the prior quarter as the benefit of reduced fibre costs in the current quarter mostly offset seasonally higher energy costs, as well as increased energy usage and operating labour and maintenance spend, following COVID-19 related curtailments in the prior period. Compared to the fourth quarter of 2019, pulp unit manufacturing costs were modestly higher, principally reflecting lower production in the current quarter, partially offset by reduced fibre costs. Fibre costs were down compared to both comparative periods, primarily driven by an increased proportion of lower-cost sawmill residual chips, mostly due to higher operating rates at Canfor's sawmills.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars, unless otherwise noted)	**Q4 2020**	Q3 2020	Q4 2019
Sales	**$ 40.7**	$ 34.5	$ 34.2
Operating income before amortization[19]	**$ 5.6**	$ 5.7	$ 5.8
Operating income	**$ 4.8**	$ 5.0	$ 5.0
Production – paper (000 mt)	**36**	24	28
Shipments – paper (000 mt)	**35**	27	26

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

Markets

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

Sales

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

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

Operations

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

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

Unallocated Items

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

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

Net finance expense for the fourth quarter of 2020 was $1.2 million, in line with the third quarter of 2020 and down $0.4 million compared to the fourth quarter of 2019. The decrease in finance expense compared to the fourth quarter of 2019 principally related to a lower interest expense associated with the Company's term loan and lower financing fees associated with letters of credit.

Other income, net, of $15.6 million for the fourth quarter of 2020 primarily reflected insurance proceeds of $17.7 million, offset in part by unfavourable foreign exchange movements on US-dollar denominated working capital balances. The former is related to unscheduled downtime in 2018 at Northwood to enable necessary tube replacements to RB5, rectifying damage discovered during routine preventative maintenance inspections.

Other Comprehensive Income (Loss)

In the fourth quarter of 2020, the Company recorded a gain of $6.4 million (before tax) related to changes in the valuation of the Company's employee future benefits plans, largely reflecting favourable actuarial experience adjustments and a higher than anticipated return on plan assets.

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

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

Summary of Financial Position

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

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

Operating Activities

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

Financing Activities

Cash used for financing activities in the fourth quarter of 2020 was $0.9 million, in line with the third quarter of 2020, and compared to cash generated of $8.5 million in the fourth quarter of 2019. Cash used for financing activities in the current quarter primarily reflected interest expense associated with the Company's term loan and financing fees associated with letters of credit. Financing activities in the fourth quarter of 2019 included a $14.0 million draw down of the Company's operating loan facility, offset in part by payment of a quarterly dividend of $4.1 million ($0.0625 per common share).

Investing Activities

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

OUTLOOK

Pulp Markets

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

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

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

Paper Markets

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the amounts recorded in the consolidated financial statements. Management regularly reviews these estimates and assumptions based on currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, Management does not believe it is likely that any such differences will materially affect CPPI's financial position. Unless otherwise indicated the critical accounting estimates discussed affect all of the Company's reportable segments.

Employee Future Benefits

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

CPPI uses independent actuarial firms to perform actuarial valuations of the fair value of pension and other non-pension post-retirement benefit plan obligations. The application of IFRS requires judgments regarding certain assumptions that affect the accrued benefit provisions and related expenses, including the discount rate used to calculate the present value of the obligations, the rate of compensation increases, mortality assumptions and the assumed health care cost trend rates. Management evaluates these assumptions annually based on experience and the recommendations of its actuarial firms. Changes in these assumptions result in actuarial gains or losses, which are recognized in full in each period with an adjustment through Other Comprehensive Income.

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

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

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

Asset Retirement Obligations

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

Asset Impairments

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

Deferred Taxes

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

Valuation of Finished Product Inventories

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

RISKS AND UNCERTAINTIES

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

Capital Requirements

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

Climate Change

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

Competitive Markets

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

Coronavirus Outbreak (COVID-19)

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. COVID-19's impact on global markets has been significant and in response, the Company announced a series of significant measures.

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

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

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

Currency Exchange Risk

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

Cyclicality of Product Prices

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

Dependence on Canfor

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

Dependence on Key Customers

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

Dividends

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

Employee Future Benefits

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

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

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

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

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

Environmental Laws, Regulations and Compliance

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

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

Financial Risk Management and Earnings Sensitivities

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

Financial Risk Management

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

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

(a) Credit risk:

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

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

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

(b) Liquidity risk:

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

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

(c) Market risk:

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

(i) *Interest rate risk:*

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

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

(ii) *Currency risk:*

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

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

(iii) *Commodity price risk:*

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

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

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

(iv) *Energy price risk:*

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

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

Earnings Sensitivities

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

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

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

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

Government and Other Regulations

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

Increased Industry Production Capacity

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

Indigenous Relations

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

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

Canadian judicial decisions have recognized the continued existence of Indigenous rights and title to lands continuously and exclusively used or occupied by Indigenous groups; however, until recently, the courts have not identified any specific lands where Indigenous title exists. In June 2014, the Supreme Court of Canada, for the first time, recognized Indigenous title for the Tsilhqot'in Nation over approximately 1,750 square kilometres of land in central BC ("William decision"). It found that provisions of BC's *Forest Act*, dealing with the disposition or harvest of Crown timber, no longer applied to timber located on these lands, but also confirmed provincial law can apply on Indigenous title lands.

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

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

Information Technology

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

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

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

Labour Agreements and Competition for Professional Skilled Labour

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

Maintenance Obligations and Facility Disruptions

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

Raw Material Costs

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

Transportation Services

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

OUTSTANDING SHARE DATA

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

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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