2021

MANAGEMENT'S DISCUSSION & ANALYSIS

CANFOR PULP PRODUCTS INC.

2021 MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("Canfor Pulp", "CPPI" or "the Company") financial performance for the year ended December 31, 2021 relative to the year ended December 31, 2020, and the financial position of the Company at December 31, 2021. 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, 2021 and 2020 (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 and Impairment 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 – 2021 Compared to 2020") 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 and Impairment, 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 and Impairment, 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 and Impairment to Operating Income (loss) and Adjusted Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in the "Non-IFRS Financial Measures" section of this MD&A.

Also in this MD&A, reference is made to net debt (cash), net debt (cash) to total capitalization and return on invested capital ("ROIC") which the Company considers to be relevant performance indicators that are not generally accepted under IFRS. Therefore these indicators, defined herein, may not be directly comparable with similarly titled measures used by other companies. Refer to the "Non-IFRS Financial Measures" section of this MD&A for further details.

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. The information in this report is as at March 1, 2022.

<u>Forward-Looking Statements</u>

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

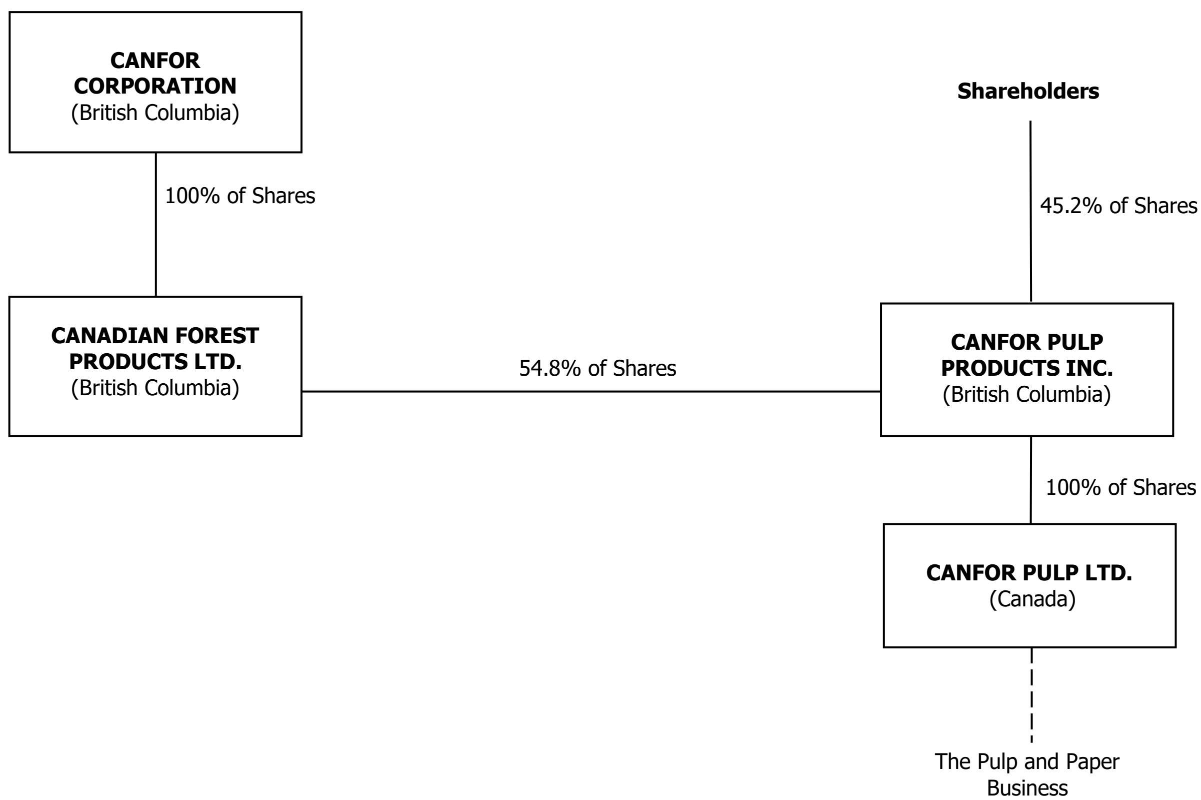
CPPI is a company incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The consolidated financial statements of the Company as at and for the year ended December 31, 2021 comprise the Company and its subsidiary entities. The Company's operations consist of two Northern Bleached 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, 2021, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI, unchanged from December 31, 2020.

CPPI employed 1,277 people in its wholly owned subsidiaries and jointly owned operations as at December 31, 2021.

The following chart illustrates, on a simplified basis, the ownership structure of CPPI (collectively "the Company") as at December 31, 2021.

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;
- Implementing a sustainability strategy that is helping to protect our planet, support our people and communities, and produce pulp and paper products that are an important part of a low-carbon economy;
- 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;
- 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;
- Targeting a highly cost-efficient operating position;
- 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 2021

Following the many challenges driven by the onset of the coronavirus outbreak ("COVID-19") in 2020, Canfor Pulp experienced improved results in 2021, primarily reflecting the strengthening of global pulp market fundamentals in the first half of the year which more than offset the impacts from extreme weather conditions in BC on supply chain and operations, production downtime and global pulp market weakness in the latter part of the year. At the end of the 2021 year, recognizing increasing challenges to the business posed by fibre availability and costs, the Company recorded an asset impairment of $95.0 million. Before taking account of adjusting items, the Company's operating income was $31.9 million for the current year, with adjusted net income of $0.38 per share, an improvement of $96.5 million from the adjusted operating loss of $64.6 million for the prior year, and adjusted net loss of $0.34 per share. The Company reported an operating loss for 2021 of $65.5 million, versus an operating loss of $56.1 million for 2020.

For 2021 overall, persistent global supply chain challenges gave rise to more volatility and higher prices in global pulp markets. The printing and writing segment experienced a slight uptick of demand in the current year, following its accelerated decline in the prior year, while demand for tissue products was comparable year-over-year.

Early in the year, global pulp demand saw a sharp improvement, principally driven by strengthening demand, particularly from China. However, a moderation in purchasing activity from China mid-year, resulted in a decline in global pulp market fundamentals through the second half of 2021. As a result, global pulp inventory levels remained at elevated levels through most of 2021, averaging 41 days of supply.

NBSK list prices to China, the world's largest consumer of market pulp, surged in the first half of 2021, reaching a near-record high of US$990 per tonne in April. However, as purchasing activity waned, prices to this region declined through the latter part of the year to a low of US$696 per tonne in November. For the 2021 year as a whole, NBSK pulp list prices to China averaged US$850[1] per tonne, an increase of US$262 per tonne, or 45%, from 2020, while North American NBSK pulp list prices averaged US$1,478[1] per tonne for the current year, up US$339 per tonne, or 30%, from the prior year (before taking account of customer discounts, which were broadly unchanged year-over-year). BCTMP US-dollar prices experienced more modest improvements through the first half of 2021, before declining in the second half of the year to levels comparable to 2020.

Extreme weather in BC including wildfires, flooding and intense cold, led to significant rail and road disruptions as well as pulp mill operational challenges through much of the year, with the fourth quarter seeing significant production and supply chain disruptions. These conditions were coupled with global port congestion and container shortages. The Company responded to these challenges by taking production curtailments at its Northwood NBSK pulp mill ("Northwood") and its Taylor BCTMP mill ("Taylor") in the fourth quarter.

The year also saw the commencement in December of a major rebuild of the lower furnace of the number one recovery boiler ("RB1") at Northwood to ensure its safe and reliable operation, which further reduced production volumes in the fourth quarter.

The reported operating loss for the pulp segment was $55.8 million in 2021. After taking account of adjusting items, the pulp segment earnings for the current year were $41.6 million, an improvement of $120.5 million compared to an adjusted operating loss of $78.9 million in the previous year, as notably higher NBSK pulp unit sales realizations more than offset the impact of a 5 cent, or 7%, stronger Canadian dollar and unscheduled production outages in the latter part of 2021.

The combined impact of the aforementioned downtime taken in 2021 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 delivered a solid operational performance at its Prince George paper machine in 2021. Operating earnings, however, showed a notable decline year-over-year, as significantly higher slush pulp prices, driven by the high NBSK pulp prices in the current year, more than offset the benefit of improved US-dollar kraft paper prices year-over-year.

Despite the operational challenges faced by Canfor Pulp in 2021, the Company maintained a solid balance sheet, finishing 2021 with net cash of $23.3 million and a net cash to total capitalization ratio of 4.9%. This represented an improvement of $66.5 million compared to the end of 2020.

Like other central and northern BC Interior pulp producers, the Company's supply of sawmill residual chips has been significantly reduced over the last few years, primarily driven by extensive permanent sawmill curtailments in the region. As a result, the Company's fibre purchases have experienced ongoing cost pressures that include an increase in the proportion of higher-cost whole log chips and higher transportation costs.

Looking forward there remains significant uncertainty with regards to the future of economically viable fibre within BC. This uncertainty is driven by, among other factors, the lasting impacts of the Mountain Pine Beetle ("MPB") epidemic, wildfire events, future Timber Supply Review determinations by the BC Government, as well as uncertainties associated with unsettled land and title claims by various Indigenous Nations and outstanding policy, land use decisions and legislative initiatives by the BC Government. This includes the BC Government's announced deferral of harvesting on 2.6 million hectares of BC's old-growth forests and the potential redistribution of Crown tenure harvesting rights, including Indigenous Nations.

[1] Resource Information Systems, Inc.

Consequently, the BC sawmill manufacturing industry faces a constrained fibre supply environment, where existing sawmill capacity outstrips the available timber supply in BC. Until this imbalance is corrected, the Company anticipates that escalating log cost pressures in BC will translate into a higher cost fibre supply for its pulp mills (both for sawmill residual chips and whole-log chips). In addition, it is expected that the long-term aggregate available chip supply will be permanently reduced.

Recognizing these increased fibre costs as well as ongoing uncertainty surrounding fibre availability, the Company performed an impairment test for its pulp segment as of December 31, 2021, which resulted in an impairment charge of $95.0 million being recognized in the current year as a reduction to the carrying value of pulp segment assets.

A review of the more significant developments and results by operating segment in 2021 follows.

Markets and Pricing

(i) Pulp – Supply chain driven volatility in global pulp fundamentals and pricing in 2021

The upward pricing momentum experienced in the latter part of 2020 continued into the first half of 2021, as tight global supply driven by unplanned downtime in the prior year, combined with global logistics constraints, resulted in tightening markets through the first half of 2021. However, as the sustained and uncertain impacts of ongoing global transportation challenges continued into the second half of 2021, rising global pulp inventory levels and softening Chinese demand, tied in part to the energy constraints on the industrial segment in that region, put pressure on global pulp market fundamentals. Late in the year, however, following unplanned pulp downtime coupled with improved demand in China, global pulp pricing experienced some positive momentum.

As a result of the aforementioned factors, NBSK pulp list prices to China for the year averaged US$850 per tonne, US$262 per tonne, or 45%, higher than the 2020 average price; however, prices weakened later in the year in response to slowing demand and oversupply in that region, ending the year at US$760 per tonne. North American pulp prices experienced similar trends to Asia with list prices to that region showing a notable improvement from US$1,185 per tonne in January to a peak of US$1,615 per tonne in June, before declining to US$1,450 per tonne in December (before taking account of customer discounts, which were broadly unchanged year-over-year).

Global softwood pulp producer inventories increased in the first quarter of 2021, largely as a result of transportation constraints and lower maintenance downtime, before declining slightly through the spring maintenance period in the second quarter of 2021. In the latter part of 2021, mostly in response to the slowdown of demand from China, global pulp inventories increased steadily, ending the year at 43[2] days, well above the balanced range of 29-36 days.

[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").

The following charts show the NBSK pulp list price movements in 2021, before taking account of customer discounts and rebates (Chart 1), global pulp shipments by destination (Chart 2), and the global pulp inventory levels (Chart 3).

Chart 1

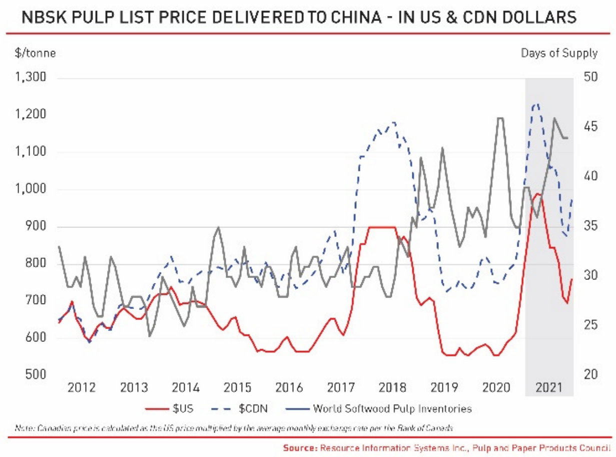


Chart 2

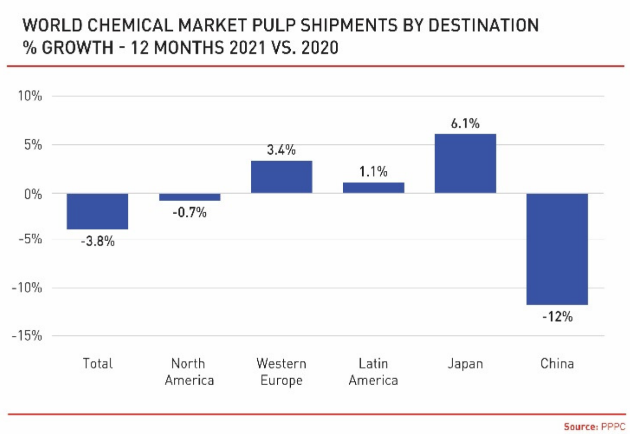
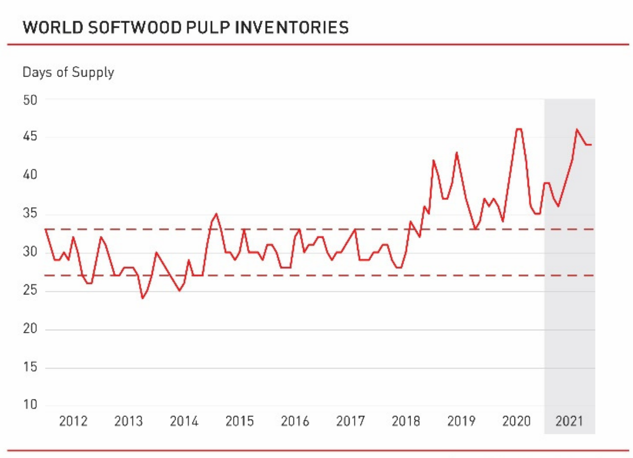


Chart 3



(ii) Paper – COVID-19 related strengthening of global kraft paper market fundamentals

With the global pandemic continuing into 2021, the demand for food grade kraft paper products and home building supplies packaged in kraft paper remained strong. Demand in offshore markets that had been lagging North America experienced an uptick in the current year and gave rise to increased global supply pressures. As a result, overall global kraft paper pricing strengthened year-over-year.

Fibre Supply

Ongoing fibre cost pressures combined with uncertainty surrounding fibre availability

Like other central and northern BC Interior pulp producers, the Company's supply of sawmill residual chips has been significantly reduced over the last few years, primarily driven by extensive permanent sawmill curtailments in the region. As a result, the Company's fibre purchases have experienced ongoing cost pressures that include an increase in the proportion of higher-cost whole log chips and higher transportation costs.

Looking forward there remains significant uncertainty with regards to the future of economically viable fibre within BC. This uncertainty is driven by, among other factors, the lasting impacts of the MPB epidemic, wildfire events, future Timber Supply Review determinations by the BC Government, as well as uncertainties associated with unsettled land and title claims by various Indigenous Nations and outstanding policy, land use decisions and legislative initiatives by the BC Government. This includes the BC Government's announced deferral of harvesting on 2.6 million hectares of BC's old-growth forests and the potential redistribution of Crown tenure harvesting rights, including Indigenous Nations.

Consequently, the BC sawmill manufacturing industry faces a constrained fibre supply environment, where existing sawmill capacity outstrips the available timber supply in BC. Until this imbalance is corrected, the Company anticipates that escalating log cost pressures in BC will translate into a higher cost fibre supply for its pulp mills (both for sawmill residual chips and whole-log chips). In addition, it is expected that the long-term aggregate available chip supply will be permanently reduced.

The Company has taken a number of actions in response to these fibre constraints, including securing additional fibre supply, prioritizing discretionary capital spend on optimizing fibre procurement and maximizing fibre utilization and recovery. However, recognizing the increased fibre cost pressures and ongoing uncertainty surrounding fibre availability for the Company's pulp mills, the Company performed an impairment test as of December 31, 2021, which resulted in an impairment charge of $95.0 million being recognized in the current year as a reduction to the carrying value of pulp segment assets.

Capital and Operations Review

Solid balance sheet remains, notwithstanding weather-related curtailments and operational disruptions; Northwood RB1 lower furnace rebuild underway

Total pulp and paper production in 2021 at 1,144,000 tonnes was broadly in line with prior year, largely reflecting the year-over-year impact of several scheduled and unplanned outages. Following the completion in mid-January of Northwood's recovery boiler number five ("RB5") rebuild, the Company's pulp mills had a strong start to the year, with solid operating rates throughout much of the first half of 2021. However, the onset of wildfires, flooding and intense cold in the latter part of the year contributed to transportation-related production curtailments at Northwood and Taylor and placed a significant strain on the Company's pulp mills.

In addition, in late-December the Company extended its outage on one production line at Northwood to enable the replacement of the lower furnace on RB1. This lower furnace capital rebuild is progressing as planned and is anticipated to be completed late-March, for a total capital cost of approximately $30.0 million and total reduction in NBSK pulp production of approximately 80,000 tonnes (10,000 tonnes in 2021 and a further 70,000 tonnes in the first quarter of 2022).

Combined, these factors reduced pulp production by approximately 170,000 tonnes in 2021. Furthermore, the Company completed scheduled outages in the current year at its Intercontinental, Prince George and Taylor mills which reduced pulp production by 25,000 tonnes.

In 2020, pulp production was most notably impacted by COVID-19 related curtailments and Northwood's RB5 lower furnace replacement and extended outage, which reduced pulp production by 133,000 tonnes, as well as scheduled outages at the Company's Northwood and Taylor pulp mills (approximately 55,000 tonnes).

Capital spending in 2021 totaled $78.7 million and was principally comprised of Northwood's RB5 lower furnace replacement early in the year, combined with maintenance-of-business capital spending. In 2022, Management currently anticipates capital spending to comprise the lower furnace rebuild of Northwood's RB1, strategic projects focused on enhancing long-term fibre optimization, improving its carbon footprint as well as various projects aimed at improving operational reliability.

The Company maintained its strong balance sheet position in 2021, finishing the year with a positive net cash position.

Environmental, Social and Governance ("ESG") Reporting and Related Risks

One of CPPI'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.

In 2021, as part of this leading role, the Company launched its sustainability strategy, including an updated 2020 Sustainability Report prepared in accordance with Global Reporting Initiative Standards. The latest Sustainability Report includes the Company's new goals and targets and demonstrates progress made to date, reiterating a commitment to providing comprehensive and transparent reporting of sustainability practices, goals and metrics. The Company's sustainability strategy marks a new era in sustainability for the Company. The Company's vision of creating a future as sustainable as the forests is grounded in a deep respect for the people the business touches, the products it creates and the planet it relies on to thrive.

In the 2021 Sustainability Report, the Company will continue its evolution in ESG reporting by providing increasing transparency and disclosure, including defining additional goals and targets for its ESG material topics. The Company is actively monitoring the changing landscape of ESG reporting regulations and is aligning disclosures with the recommendations from the Task Force on Climate-Related Financial Disclosures ("TCFD") and with the standards of the Sustainability Accounting Standards Board ("SASB"). More details will be included in Canfor's 2021 Sustainability Report (to be issued in the second quarter of 2022).

Furthermore, the Company is subject to risks related to ESG topics, including climate change and environmental issues. Climate change risks include physical risks resulting from adverse events brought on by both natural and human-made disasters, including, but not limited to, severe weather conditions, forest fires, hurricanes, earthquakes and timber diseases and infestations. The Company is also subject to transition risks associated with climate change including changes in laws, regulations and industry standards associated with climate change. There also may be reputation risks due to rising prominence of ESG concerns among the Company's stakeholders and Indigenous Partners which could impact public opinions about the Company and its industry and could adversely affects its reputation, business, strategy and operations. The Company is also subject to a wide range of general and industry-specific laws and regulations relating to protection of the environment.

The risks and uncertainties the Company faces associated with climate change and the environment are discussed further under "Climate Change" and "Environmental Issues" in the Risks and Uncertainties section of this document.

OVERVIEW OF CONSOLIDATED RESULTS – 2021 COMPARED TO 2020

Selected Financial Information and Statistics

(millions of Canadian dollars, except for per share amounts)		2021		2020
Sales	**$**	**1,144.9**	$	990.5
Operating income (loss) before amortization and impairment[3,4]	**$**	**116.8**	$	26.1
Operating income (loss)	**$**	**(65.5)**	$	(56.1)
Adjusted operating income (loss) before amortization and impairment[3,4,5]	**$**	**119.2**	$	17.6
Adjusted operating income (loss)[5]	**$**	**31.9**	$	(64.6)
Net loss	**$**	**(44.4)**	$	(22.4)
Net loss per share, basic and diluted	**$**	**(0.68)**	$	(0.34)
Adjusted net income (loss)[5]	**$**	**25.0**	$	(22.4)
Adjusted net income (loss) per share, basic and diluted[5]	**$**	**0.38**	$	(0.34)
ROIC – Consolidated[5]		**(7.6)%**		(3.2)%
Average exchange rate (US$ per Cdn$1.00)[6]	**$**	**0.798**	$	0.746

[3] Amortization includes amortization of certain capitalized major maintenance costs.
[4] Adjusted for an asset impairment charge of $95.0 million in 2021.
[5] Adjusted results and consolidated ROIC are non-IFRS financial measures. Refer to the "Non-IFRS Financial Measures" section for further details.
[6] Source – Bank of Canada (monthly average rate for the period).

Selected Cash Flow Information

(millions of Canadian dollars)		2021		2020
Operating income (loss) by segment:				
Pulp	**$**	**(55.8)**	$	(70.4)
Paper	**$**	**4.3**	$	24.0
Unallocated	**$**	**(14.0)**	$	(9.7)
Total operating income (loss)	**$**	**(65.5)**	$	(56.1)
Add: Amortization[7]	**$**	**87.3**	$	82.2
Add: Asset impairment	**$**	**95.0**	$	-
Total operating income (loss) before amortization and impairment	**$**	**116.8**	$	26.1
Add (deduct):				
Working capital movements	**$**	**(3.9)**	$	11.8
Defined benefit plan contributions, net	**$**	**(3.5)**	$	(3.3)
Income taxes received, net	**$**	**26.0**	$	29.0
Other operating cash flows, net	**$**	**13.5**	$	32.4
Cash from operating activities	**$**	**148.9**	$	96.0
Add (deduct):				
Capital additions, net	**$**	**(78.7)**	$	(73.3)
Dividends paid	**$**	**-**	$	(4.1)
Other, net	**$**	**(3.7)**	$	(3.8)
Change in cash / operating loans	**$**	**66.5**	$	14.8

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

Analysis of Specific Items Affecting Comparability of Shareholder Net Income (Loss)

After-tax impact (millions of Canadian dollars, except for per share amounts)	2021	2020
Net loss, as reported	**$ (44.4)**	$ (22.4)
Asset impairment	**$ 69.4**	$ -
Net impact of above items	**$ 69.4**	$ -
Adjusted net income (loss)[8]	**$ 25.0**	$ (22.4)
Net income (loss) per share (EPS), as reported	**$ (0.68)**	$ (0.34)
Net impact of above items per share	**$ 1.06**	$ -
Adjusted net income (loss) per share[8]	**$ 0.38**	$ (0.34)

[8] Adjusted net income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

OPERATING RESULTS BY BUSINESS SEGMENT – 2021 COMPARED TO 2020

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 2021 and 2020 are as follows:

(millions of Canadian dollars, unless otherwise noted)	2021	2020
Sales	**$ 984.7**	$ 827.9
Operating income before amortization and impairment[9]	**$ 123.9**	$ 8.8
Operating income (loss)	**$ (55.8)**	$ (70.4)
Asset impairment	**$ 95.0**	$ -
Inventory write-downs (recovery)	**$ 2.4**	$ (8.5)
Adjusted operating income (loss)[10]	**$ 41.6**	$ (78.9)
Capital expenditures	**$ 76.3**	$ 71.3
Average NBSK pulp price delivered to China – US$[11]	**$ 850**	$ 588
Average NBSK pulp price delivered to China – Cdn$[11]	**$ 1,065**	$ 789
Production – pulp (000 mt)	**1,018**	1,018
Shipments – pulp (000 mt)	**1,007**	1,045

[9] Amortization includes amortization of certain capitalized major maintenance costs.
[8] Adjusted operating income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[11] Per tonne, NBSK pulp list net price delivered to China (as published by Resource Information Systems, Inc. ("RISI")); Average NBSK pulp net price delivered to China in Cdn$ calculated as average NBSK pulp net price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.

Markets

As previously highlighted, the upward pricing momentum experienced in the latter part of 2020 continued into the first half of 2021, as tight global supply driven by unplanned downtime in the prior year, combined with global logistics constraints resulted in tightening markets through the first half of 2021. However, as the sustained and uncertain impacts of ongoing global transportation challenges continued into the second half of 2021, rising global pulp inventory levels and softening Chinese demand, tied in part to the energy constraints on the industrial segment in that region, put pressure on global pulp market fundamentals. Late in the year, however, following unplanned pulp downtime coupled with improved demand in China, global pulp pricing experienced some positive momentum.

NBSK pulp list prices to China for the year averaged US$850 per tonne, US$262 per tonne, or 45%, higher than the 2020 average price; however, prices weakened later in the year in response to slowing demand and oversupply in that region, ending the year at US$760 per tonne. North American pulp prices experienced similar trends to Asia with list prices to that region showing a notable improvement from US$1,185 per tonne in January to a peak of US$1,615 per tonne in June, before declining to US$1,450 per tonne in December (before taking account of customer discounts, which were broadly unchanged year-over-year).

Global softwood pulp producer inventories increased in the first quarter of 2021, largely as a result of transportation constraints and lower maintenance downtime, before declining slightly through the spring maintenance period in the second quarter of 2021. In the latter part of 2021, mostly in response to the slowdown of demand from China, global pulp inventories increased steadily, ending the year at 43 days, well above the balanced range of 29-36 days.

Sales

The Company's pulp shipments in 2021 were 1.01 million tonnes, down 38,000 tonnes, or 4%, from 2020, principally due to the substantial vessel delays and global port congestion experienced throughout 2021 combined with weather-related rail disruptions due to wildfires and flooding in BC.

As mentioned, for the 2021 year as a whole, NBSK pulp list prices to China averaged near record-highs at US$850 per tonne, up US$262 per tonne, or 45%, compared to 2020. North American NBSK pulp list prices averaged US$1,478 per tonne for the current year, up US$339 per tonne, or 30%, year-over-year (before discounts, which were largely unchanged). Accordingly, average NBSK pulp unit sales realizations experienced a significant increase compared to 2020, moderated in part by the 5 cent, or 7%, stronger Canadian dollar. Average BCTMP unit sales realizations were broadly comparable to the historical lows experienced in 2020 as a gradual improvement in BCTMP US-dollar prices through the first half of the year was offset by a decline in pricing through most of the second half of 2021 and the stronger Canadian dollar.

Energy revenues in 2021 were broadly in line with the prior year as turbine operating days and energy generation were comparable year-over-year.

Operations

Pulp production in 2021, at 1.02 million tonnes, was broadly in line with that produced in 2020, largely reflecting the year-over-year impact of several scheduled and unplanned outages. Following the completion in mid-January of Northwood's RB5 rebuild, the Company's pulp mills had a strong start to the year, with solid operating rates throughout much of the first half of 2021. However, the onset of wildfires, flooding and intense cold in the latter half of the year contributed to transportation-related production curtailments at Northwood and Taylor and placed a significant strain on the Company's pulp mills. In addition, in late December, the Company commenced the rebuild of Northwood's RB1. Combined, these factors reduced pulp production by approximately 170,000 tonnes in 2021. Furthermore, the Company completed scheduled outages in the current year at its Intercontinental, Prince George and Taylor mills which reduced pulp production by 25,000 tonnes.

In 2020, pulp production was most notably impacted by COVID-19 related curtailments and Northwood's RB5 lower furnace replacement and extended outage, which reduced pulp production by 133,000 tonnes, as well as scheduled outages at the Company's Northwood and Taylor pulp mills (approximately 55,000 tonnes).

Pulp unit manufacturing costs were moderately higher compared to the prior year, principally reflecting higher fibre costs, and an increase in pulp unit conversion costs associated with higher maintenance and energy costs resulting from the aforementioned downtime. The increase in fibre costs compared to 2020 largely reflected higher market-based prices for sawmill residuals (linked to higher Canadian NBSK pulp prices), partially offset by a decrease in the proportion of higher-cost whole log chips.

Asset Impairment

In 2021, the Company recorded an asset impairment charge of $95.0 million, driven by increased fibre costs as well as ongoing uncertainty surrounding fibre availability for the Company's pulp mills.

More information on the asset impairment is contained under "Critical Accounting Estimates – Asset Impairment".

Paper

Selected Financial Information and Statistics – Paper

Summarized results for the Paper segment for 2021 and 2020 are as follows:

(millions of Canadian dollars, unless otherwise noted)		2021		2020
Sales	**$**	**160.2**	$	162.6
Operating income before amortization[12]	**$**	**6.8**	$	26.9
Operating income	**$**	**4.3**	$	24.0
Capital expenditures	**$**	**0.4**	$	1.4
Production – paper (000 mt)		**126**		123
Shipments – paper (000 mt)		**127**		131

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

Markets

As mentioned, with the global pandemic continuing into 2021, the demand for food grade kraft paper products and home building supplies packaged in kraft paper remained strong. Demand in offshore markets that had been lagging North America experienced an uptick in the current year and gave rise to increased global supply pressures. As a result, overall global kraft paper pricing strengthened year-over-year.

Sales

The Company's paper shipments in 2021, at 127,000 tonnes, were down 4,000 tonnes from 2020, primarily reflecting the timing of shipments year-over-year. Paper unit sales realizations for the current year were modestly up from prior year, reflecting an improvement in US-dollar kraft paper prices mostly offset by the stronger Canadian dollar.

Operations

Paper production in 2021 was 126,000 tonnes, up 3,000 tonnes, from 2020, as the impact of a scheduled maintenance outage in the current year was less significant than the impact of fibre-related curtailments in the prior year. Notably higher paper unit manufacturing costs in 2021 were primarily due to a significant increase in slush pulp costs (linked to higher Canadian dollar NBSK market pulp prices), while paper unit conversion costs were largely unchanged year-over-year.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)		2021		2020
Corporate costs	**$**	**(14.0)**	$	(9.7)
Finance expense, net	**$**	**(5.0)**	$	(5.2)
Other income, net	**$**	**9.5**	$	30.7

Corporate Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were $14.0 million in 2021, up $4.3 million from 2020, largely reflecting a return to more normalized levels of head office and general and administrative expenses following COVID-19 cost reduction initiatives in the prior year, as well as, to a lesser extent, an increase in strategic-related spend year-over-year.

Finance Expense, Net

Net finance expense for 2021 was $5.0 million, down $0.2 million from 2020. The decrease principally reflected lower interest expense associated with the Company's non-revolving term loan and reduced employee future benefit interest costs, offset in part by higher interest expense associated with the extension of the Company's non-revolving term loan in December 2021.

Other Income, Net

Other income, net, of $9.5 million for 2021 primarily reflected insurance proceeds of $8.8 million (2020 – $32.8 million), and to a lesser extent, favorable foreign exchange movements on US-dollar denominated working capital balances.

Income Tax Recovery

The Company recorded an income tax recovery of $16.6 million in 2021 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)		2021		2020
Net loss before income taxes	**$**	**(61.0)**	$	(30.6)
Income tax recovery at statutory rate of 27% (2020 – 27%)	**$**	**16.5**	$	8.3
Add (deduct):				
Entities with different income tax rates and other tax adjustments		**0.1**		(0.1)
Income tax recovery	**$**	**16.6**	$	8.2

In addition to the amounts recorded in net loss, a tax expense of $2.5 million was recorded to other comprehensive income in relation to actuarial gains, net, on the defined benefit plans in 2021 (December 31, 2020 – expense of $0.3 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 charge through other comprehensive income.

For 2021, a gain of $9.4 million (before tax) was recorded in other comprehensive income, related to changes in the valuation of the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), largely reflecting a 0.3% increase in the discount rate used to value the defined benefit plans, and to a lesser extent, a higher than anticipated return on plan assets.

For 2020, a gain of $1.0 million (before tax) was recorded in other comprehensive income, related to changes in the valuation of the Company's defined benefit plans, as a higher than anticipated return on plan assets, and to a lesser extent, favourable actuarial experience adjustments, more than offset losses associated with a 0.3% decrease in the discount rate.

In 2020 and 2021, no buy-in annuities were purchased by the Company. As at December 31, 2021, the plan holds $76.1 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, 43% of the change to the defined benefit pension plans is fully offset against changes in discount rates and longevity risk (potential increases in life expectancy of plan members) through buy-in annuities, and a further 25% is partially hedged 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, 2021 and 2020:

(millions of Canadian dollars, except for ratios)	2021	2020
Cash and cash equivalents	**$ 73.3**	$ 6.8
Operating working capital	**147.9**	148.4
Net working capital	**221.2**	155.2
Property, plant and equipment and intangible assets	**464.8**	594.5
Other long-term assets	**4.8**	8.5
Net working capital and long-term assets	**$ 690.8**	$ 758.2
Term debt	**50.0**	50.0
Long-term lease obligations	**2.1**	1.5
Retirement benefit obligations	**62.9**	70.4
Other long-term provisions	**7.0**	8.7
Deferred income taxes, net	**73.8**	95.1
Total equity	**495.0**	532.5
	$ 690.8	$ 758.2
Ratio of current assets to current liabilities	**2.5 : 1**	2.0 : 1
Net debt (cash) to total capitalization[13]	**(4.9)%**	7.5%

[13] Net debt (cash) to total capitalization is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

Reflecting 2021'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 2021 was 2.5:1, compared to 2.0:1 at the end of 2020. See further discussion in "Changes in Financial Position" section.

The Company's net cash to capitalization was 4.9% at December 31, 2021 (December 31, 2020 – net debt to capitalization of 7.5%), primarily reflecting improved cash earnings from operations.

CHANGES IN FINANCIAL POSITION

At the end of 2021, CPPI had $73.3 million of cash and cash equivalents.

(millions of Canadian dollars)	2021	2020
Increase (decrease) in cash and cash equivalents	**$ 66.5**	$ 0.8
Operating activities	**$ 148.9**	$ 96.0
Financing activities	**$ (4.3)**	$ (22.4)
Investing activities	**$ (78.1)**	$ (72.8)

The changes in the components of these cash flows during 2021 are discussed in the following sections.

Operating Activities

For the 2021 year, CPPI generated cash from operating activities of $148.9 million, up $52.9 million from $96.0 million in the previous year. The improvement in operating cash flows was principally due to higher cash earnings in the current year, offset in part by unfavourable movements in non-cash working capital principally reflecting an increase in the carrying value of finished pulp and chip inventories in the current year, combined with a decline in accounts payable and accrued liabilities at the end of 2021 (timing-related).

Financing Activities

In 2021, cash used in financing activities was $4.3 million, compared to $22.4 million in the prior year. Financing activities in 2021 principally related to interest paid on the Company's letters of credit, operating loan facility and non-revolving term debt. Financing activities in 2020 comprised a $14.0 million repayment of the Company's principal operating loan facility as well as a dividend payment of $4.1 million (reflecting a dividend of $0.0625 per common share paid in the first quarter of 2020).

Investing Activities

Net cash used for investing activities in 2021 was $78.1 million, compared to $72.8 million used in 2020. Capital expenditures of $78.7 million in 2021 principally comprised of Northwood's RB5 lower furnace replacement early in the year combined with capital spending on reducing fossil fuel consumption and maintenance-of-business projects.

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loan and Term Debt

At December 31, 2021, 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.

On December 15, 2021, the Company extended the maturity date of its committed operating loan facility from April 6, 2023 to December 15, 2025.

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 December 15, 2021, the Company extended the maturity date of its $50.0 million non-revolving term debt from September 30, 2022 to December 15, 2024, 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 of its debt covenants for the year ended December 31, 2021 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.

As at December 31, 2021 and March 1, 2022 there were 65,233,559 common shares of the Company outstanding, and Canfor's ownership interest in CPPI was 54.8% (December 31, 2020 – 54.8%).

2022 Projected Capital Spending and Debt Repayments

Based on its current outlook, the Company anticipates that it will invest approximately $70 million in capital projects in 2022 (excluding costs related to scheduled maintenance outages), with a primary focus on the rebuild of Northwood's RB1 lower furnace as well as strategic projects aimed at enhancing long-term fibre optimization, improving its carbon footprint and 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 2022.

Commitments

Contractual obligations the Company is committed to include:

- Other contractual commitments, not previously mentioned, total $34.1 million, which include 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 2021 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 a 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, 2021 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 $10.8 million to remediate landfills at the end of their useful lives. Payments relating to landfill closure costs are expected to occur at periods ranging from 1 to 30 years and have been discounted at risk free rates ranging from 0.6% to 1.7%. The estimated discounted value is $8.1 million, of which $6.7 million is included in 'Other long-term provisions' and $1.4 million is included in 'Accounts payable and accrued liabilities' on CPPI's 2021 consolidated balance sheet.
- Obligations to pay defined benefit pension plans and other post-employment benefits, for which a net liability for accounting purposes at December 31, 2021 was $62.9 million. As at December 31, 2021, CPPI estimated that it would make contribution payments of $2.3 million to its defined benefit pension plans in 2022 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 2021, the Company depended on Canfor to provide approximately 60% of its fibre supply as well as certain key business and administrative services. As a result of these relationships, the Company considers its operations to be dependent on its ongoing relationship with Canfor. The current market-based pricing under one of the Company's Fibre Supply Agreements with Canfor expired on June 30, 2021. The Company and Canfor agreed to extend the pricing agreement with terms currently under review and expected to be finalized in the second quarter of 2022.

In 2021, the Company purchased wood chips, logs and hog fuel from Canfor sawmills in the amount of $197.4 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 2021 was $22.9 million. These amounts are included in 'Manufacturing and product costs' and 'Selling and administration costs' within CPPI's 2021 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 2021 was $3.8 million. These amounts are included as a cost recovery in 'Manufacturing and product costs' and 'Selling and administration costs' within CPPI's 2021 consolidated financial statements. At December 31, 2021, an outstanding balance of $16.0 million was owed to Canfor.

The Jim Pattison Group is Canfor's largest shareholder with an ownership interest of 51.2% at December 31, 2021. During 2021, the Company sold paper to subsidiaries owned by The Jim Pattison Group totaling $1.7 million. The Company also made purchases from subsidiaries owned by The Jim Pattison Group totaling $0.6 million. At December 31, 2021, an outstanding balance of $0.1 million was owed to subsidiaries owned by the Jim Pattison Group.

Additional details on related party transactions are contained in Note 18 to CPPI's 2021 consolidated financial statements.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 249.3**	**$ 298.9**	**$ 334.3**	**$ 262.4**	$ 237.8	$ 226.4	$ 250.7	$ 275.6
Operating income (loss) before amortization and impairment[14]	**$ (19.6)**	**$ 37.8**	**$ 72.9**	**$ 25.7**	$ (6.2)	$ (8.7)	$ 13.3	$ 27.7
Operating income (loss)	**$ (137.2)**	**$ 15.8**	**$ 51.0**	**$ 4.9**	$ (28.3)	$ (27.6)	$ (6.3)	$ 6.1
Net income (loss)	**$ (101.1)**	**$ 12.1**	**$ 36.2**	**$ 8.4**	$ (10.2)	$ (18.1)	$ (1.1)	$ 7.0
Per common share (Canadian dollars)								
Net income (loss) – basic and diluted	**$ (1.55)**	**$ 0.19**	**$ 0.55**	**$ 0.13**	$ (0.16)	$ (0.28)	$ (0.02)	$ 0.11
Book value[15]	**$ 7.59**	**$ 9.09**	**$ 8.89**	**$ 8.37**	$ 8.16	$ 8.25	$ 8.57	$ 8.66
Statistics								
Pulp shipments (000 mt)	**216**	**241**	**285**	**265**	258	249	248	290
Paper shipments (000 mt)	**27**	**34**	**30**	**37**	35	27	36	34
Average exchange rate – US$/Cdn$	**$ 0.794**	**$ 0.794**	**$ 0.814**	**$ 0.790**	$ 0.767	$ 0.751	$ 0.722	$ 0.744
Average NBSK pulp list price delivered to China (US$)	**$ 723**	**$ 832**	**$ 962**	**$ 883**	$ 637	$ 572	$ 572	$ 573

[14] Amortization includes amortization of certain capitalized major maintenance costs; includes an asset impairment charge of $95.0 million in 2021.
[15] Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

Sales are primarily influenced by changes in market pulp prices, sales volumes and fluctuations in Canadian dollar exchange rates. Operating income (loss), net income (loss) and operating income (loss) before amortization and impairment 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 and the revaluation to the period end rate of US-dollar denominated working capital balances.

(millions of Canadian dollars)	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Operating income (loss) by segment:								
Pulp	**$ (135.2)**	**$ 22.1**	**$ 53.6**	**$ 3.7**	$ (30.2)	$ (29.3)	$ (12.0)	$ 1.1
Paper	**$ 1.7**	**$ (2.5)**	**$ 0.9**	**$ 4.2**	$ 4.8	$ 5.0	$ 7.4	$ 6.8
Unallocated	**$ (3.7)**	**$ (3.8)**	**$ (3.5)**	**$ (3.0)**	$ (2.9)	$ (3.3)	$ (1.7)	$ (1.8)
Total operating income (loss)	**$ (137.2)**	**$ 15.8**	**$ 51.0**	**$ 4.9**	$ (28.3)	$ (27.6)	$ (6.3)	$ 6.1
Add: Amortization[16]	**$ 22.6**	**$ 22.0**	**$ 21.9**	**$ 20.8**	$ 22.1	$ 18.9	$ 19.6	$ 21.6
Add: Asset impairment	**$ 95.0**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -	$ -
Total operating income (loss) before amortization and impairment	**$ (19.6)**	**$ 37.8**	**$ 72.9**	**$ 25.7**	$ (6.2)	$ (8.7)	$ 13.3	$ 27.7
Add (deduct):								
Working capital movements	**$ 50.6**	**$ (28.3)**	**$ (11.0)**	**$ (15.2)**	$ 4.0	$ (12.4)	$ 42.8	$ (22.6)
Defined benefit pension plan contributions	**$ (0.6)**	**$ (0.9)**	**$ (0.9)**	**$ (1.1)**	$ (0.6)	$ (0.3)	$ (1.0)	$ (1.4)
Income taxes received (paid), net	**$ 3.3**	**$ 22.7**	**$ 0.3**	**$ (0.3)**	$ (0.1)	$ (0.2)	$ -	$ 29.3
Other operating cash flows, net	**$ 1.1**	**$ 3.3**	**$ 0.9**	**$ 8.2**	$ 13.9	$ 5.2	$ 6.8	$ 6.5
Cash from (used in) operating activities	**$ 34.8**	**$ 34.6**	**$ 62.2**	**$ 17.3**	$ 11.0	$ (16.4)	$ 61.9	$ 39.5
Add (deduct):								
Capital additions, net	**$ (16.0)**	**$ (14.3)**	**$ (15.4)**	**$ (33.0)**	$ (34.2)	$ (8.1)	$ (12.2)	$ (18.8)
Dividends paid	**$ -**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -	$ (4.1)
Other, net	**$ (1.2)**	**$ (0.7)**	**$ (0.9)**	**$ (0.9)**	$ (0.8)	$ (0.7)	$ (0.7)	$ (1.6)
Change in cash / operating loans	**$ 17.6**	**$ 19.6**	**$ 45.9**	**$ (16.6)**	$ (24.0)	$ (25.2)	$ 49.0	$ 15.0

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

THREE-YEAR COMPARATIVE REVIEW

(millions of Canadian dollars, except per share amounts)	2021	2020	2019
Sales	**$ 1,144.9**	$ 990.5	$ 1,087.9
Net loss	**$ (44.4)**	$ (22.4)	$ (30.5)
Total assets	**$ 841.7**	$ 920.8	$ 920.8
Term debt	**$ 50.0**	$ 50.0	$ 50.0
Net loss per share, basic and diluted	**$ (0.68)**	$ (0.34)	$ (0.47)
Dividends declared per share	**$ -**	$ -	$ 0.250

FOURTH QUARTER RESULTS
Overview

For the fourth quarter of 2021, the Company reported an operating loss of $137.2 million. After taking account of adjusting items, largely comprised of an asset impairment, the Company's operating loss for the fourth quarter of 2021 was $41.1 million compared to an adjusted operating income of $19.3 million for the previous quarter and an adjusted operating loss of $31.3 million for the fourth quarter of 2020.

The loss in the current period reflected weaker global pulp market conditions, combined with the significant impact of severe weather conditions on the Company's operations and shipments in the current quarter, as well as capital-related downtime at Northwood. Compared to the third quarter of 2021, the Company's unit sales realizations experienced a steep decline that was largely tied to the sharp decline in global US-dollar list prices, particularly in China. Reduced production in the current period was the result of a very challenging operating quarter, principally driven by weather-related challenges and transportation disruptions most notably at Northwood and Taylor, as well as the Company's decision to rebuild the lower furnace of RB1 at Northwood. The RB1 lower furnace replacement is progressing as planned, with completion anticipated by the end of the first quarter of 2022. Compared to the fourth quarter of 2020, earnings decreased as substantially higher US-dollar NBSK pulp list prices in the current period were more than outweighed by an 18% reduction in pulp production and the stronger Canadian dollar.

An overview of the results by business segment for the fourth quarter of 2021 compared to the third quarter of 2021 and the fourth quarter of 2020 follows.

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	Q4 2021	Q3 2021	Q4 2020
Sales	**$ 212.4**	$ 255.6	$ 197.1
Operating income (loss) before amortization and impairment[17]	**$ (18.1)**	$ 43.4	$ (8.9)
Operating income (loss)	**$ (135.2)**	$ 22.1	$ (30.2)
Asset impairment	**$ 95.0**	$ -	$ -
Inventory write-downs (recovery)	**$ 1.1**	$ 3.5	$ (3.0)
Adjusted operating income (loss)[18]	**$ (39.1)**	$ 25.6	$ (33.2)
Average NBSK pulp price delivered to China – US$[19]	**$ 723**	$ 832	$ 637
Average NBSK pulp price delivered to China – Cdn$[19]	**$ 911**	$ 1,048	$ 830
Production – pulp (000 mt)	**190**	247	233
Shipments – pulp (000 mt)	**216**	241	258

[17] Amortization includes amortization of certain capitalized major maintenance costs.
[18] Adjusted operating income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[19] Per tonne, NBSK pulp list net price delivered to China (as published by Resource Information Systems, Inc. ("RISI")); Average NBSK pulp net price delivered to China in Cdn$ calculated as average NBSK pulp net price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.

Markets

After declining in October and November, NBSK pulp prices to China, the world's largest pulp consumer, showed a modest recovery in December following unexpected global supply disruptions and ended the quarter at US$760 per tonne. As a result, average US-dollar NBSK pulp list prices to China averaged US$723 per tonne during the current quarter, down US$109 per tonne, or 13%, from the previous quarter. Prices to other global regions experienced more modest declines compared to the comparative period, with the average US-dollar NBSK pulp list price to North America at US$1,472 per tonne (before discounts), down US$70 per tonne, or 5%, from the comparative period.

Global softwood pulp producer inventories at the end of December 2021 remained well above the balanced range at 43 days of supply, a decrease of two days from September 2021 (market conditions are generally considered balanced when inventories are in the 29-36 days of supply range), as a decline in demand from China was intensified by ongoing global supply chain disruptions.

<u>Sales</u>

The Company's pulp shipments for the fourth quarter of 2021 totaled 216,000 tonnes, down 25,000 tonnes, or 10%, from the third quarter of 2021 and down 42,000 tonnes, or 16%, from the fourth quarter of 2020. Decreased shipments compared to the previous quarter principally reflected the impact of weather-related transportation disruptions in BC and the associated decrease in production volumes, combined with the ongoing effects of a constrained global logistics network, offset in part by a drawdown of inventory in the current quarter during the aforementioned Northwood RB1 downtime. Compared to the fourth quarter of 2020, the decrease in pulp shipments corresponded to an 18% decrease in pulp production in the current quarter, as well as the timing of shipments quarter-over-quarter.

The Company's average NBSK pulp unit sales realizations experienced a significant decrease compared to the previous quarter, principally tied to the declines in global US-dollar list prices. The downward trend in demand and US-dollar prices for BCTMP, particularly from the printing and writing segment, continued through the current quarter giving rise to a significant decline in the Company's BCTMP unit sales realizations quarter-over-quarter.

Compared to the fourth quarter of 2020, the average China US-dollar NBSK pulp list price was up US$86 per tonne, or 14%, while US-dollar list prices on shipments to North America were up US$333 per tonne, or 29%, over the same period. These higher global US-dollar prices resulted in substantially higher average NBSK pulp unit sales realizations, offset in part, by a 3 cent, or 3%, stronger Canadian dollar. Average BCTMP unit sales realizations were moderately down compared to the same quarter in the prior year, as modest upward momentum in BCTMP US-dollar pricing late in the current period was more than offset by the stronger Canadian dollar.

Energy revenues were moderately lower than the prior quarter as decreased energy generation, primarily due to Northwood downtime, was offset by seasonally higher energy prices in the current quarter. Energy revenues were broadly in line with the fourth quarter of 2020.

<u>Operations</u>

Pulp production was 190,000 tonnes for the fourth quarter of 2021, down 57,000 tonnes, or 23%, from the third quarter of 2021, largely reflecting the quarter-over-quarter impact of downtime.

The current quarter was particularly challenging as unprecedented flooding and harsh winter conditions in BC, significantly impacted the operational performance at all the Company's pulp mills and resulted in material transportation-related downtime at Northwood and Taylor. Production at Northwood was also impacted by the extended outage on one production line from early December to enable the replacement of RB1's lower furnace. Combined, these factors reduced current quarter NBSK pulp production by approximately 100,000 tonnes and BCTMP production by 20,000 tonnes.

In the third quarter of 2021, decreased operating days largely reflected scheduled maintenance outages at the Company's Prince George NBSK pulp mill ("PG") and Taylor, as well as incremental downtime at Northwood and Taylor reflecting both weather-related rail disruptions and, in the case of Northwood, digester-related operational upsets in July (combined, reducing pulp production by approximately 42,000 tonnes). In addition, the previous quarter's pulp production reflected various smaller operational upsets through the quarter (approximately 15,000 tonnes).

Compared to the fourth quarter of 2020, pulp production was down 43,000 tonnes, or 18%, reflecting the increased downtime in the current quarter. In the comparative 2020 period, completion of Northwood's scheduled maintenance outage in October, as well as an extended outage on one production line at Northwood to enable the replacement of RB5's lower furnace, reduced pulp production by approximately 85,000 tonnes.

Pulp unit manufacturing costs were significantly higher than the prior quarter principally reflecting reduced production in the current period, offset in part by decreased energy usage and lower maintenance spend. Compared to the fourth quarter of 2020, pulp unit manufacturing costs were notably higher, mostly attributable to lower production combined with market-related increases in fibre costs in the current quarter.

Asset Impairment

An asset impairment charge of $95.0 million was recorded in the fourth quarter of 2021 on the property, plant and equipment for the pulp segment. See "Critical Accounting Estimates – Asset Impairment" for further details.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars, unless otherwise noted)		Q4 2021		Q3 2021		Q4 2020
Sales	**$**	**36.9**	$	43.3	$	40.7
Operating income (loss) before amortization[20]	**$**	**2.2**	$	(1.9)	$	5.6
Operating income (loss)	**$**	**1.7**	$	(2.5)	$	4.8
Production – paper (000 mt)		**31**		31		36
Shipments – paper (000 mt)		**27**		34		35

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

Markets

Global kraft paper markets continued to strengthen through the fourth quarter of 2021, supported by solid demand from the North American and Asian markets.

Sales

The Company's paper shipments in the fourth quarter of 2021 were 27,000 tonnes, down 7,000 tonnes from the previous quarter, and down 8,000 tonnes from the fourth quarter of 2020, principally reflecting lower paper production in the current period combined with the timing of shipments quarter-over-quarter.

Paper unit sales realizations in the fourth quarter of 2021 were moderately higher than the previous quarter, largely attributable to the strengthening of global US-dollar paper pricing in the current period. Compared to the fourth quarter of 2020, paper unit sales realizations experienced a substantial increase, primarily reflecting a notable improvement in US-dollar prices, especially to North American markets, quarter-over-quarter, offset in part by the stronger Canadian dollar.

Operations

Paper production for the fourth quarter of 2021 was 31,000 tonnes, broadly in line with the previous quarter, as reduced productivity tied to several operational challenges at the PG pulp and paper mill in the current quarter, offset the PG pulp and paper mill's scheduled maintenance outage in the previous period. Compared to the fourth quarter of 2020, paper production was down 5,000 tonnes largely due to reduced productivity in the current quarter.

Paper unit manufacturing costs were moderately lower than the third quarter of 2021, primarily reflecting a decline in slush pulp costs, driven by the decrease in average NBSK pulp unit sales realizations in the current quarter and, to a lesser extent, reduced spend on operating supplies (timing-related). Compared to the fourth quarter of 2020, paper unit manufacturing costs saw a substantial increase, principally driven by higher slush pulp costs, with conversion costs comparable quarter-over-quarter.

Unallocated Items

(millions of Canadian dollars)		Q4 2021		Q3 2021		Q4 2020
Corporate costs	**$**	**(3.7)**	$	(3.8)	$	(2.9)
Finance expense, net	**$**	**(1.5)**	$	(1.1)	$	(1.2)
Other income (expense), net	**$**	**0.1**	$	1.8	$	(15.6)

Corporate costs were $3.7 million for the fourth quarter of 2021, broadly in line with the third quarter of 2020, and up $0.8 million compared to the fourth quarter of 2020. The latter variance largely reflected a slight increase in head office and general administrative expenses in the current period.

Net finance expense for the fourth quarter of 2021 was $1.5 million, up $0.4 million compared to the third quarter of 2021 and up $0.3 million compared to the fourth quarter of 2020, principally related to higher interest expense associated with the extension of the maturity date for the Company's term debt to December 15, 2024. See section "Liquidity and Financial Requirements" for further details.

Other income, net, of $0.1 million in the fourth quarter of 2021 was largely due to favourable foreign exchange movements on US-dollar denominated working capital balances. Other income, net, of $1.8 million in the third quarter of 2021 principally related to favourable foreign exchange movements on US-dollar denominated working capital balances. Other expense, net of $15.6 million for the fourth quarter of 2020 primarily consisted of insurance proceeds of $17.7 million, offset in part by unfavourable foreign exchange movements on US-dollar denominated working capital balances. The former was 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

In the fourth quarter of 2021, the Company recorded a gain of $4.5 million (before tax) related to changes in the valuation of the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), largely reflecting a higher than anticipated return on plan assets.

This compared to a gain of $1.2 million (before tax) in the third quarter of 2021, largely reflecting a higher than anticipated return on plan assets.

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 defined benefit plans, largely reflecting favourable actuarial experience adjustments and 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 2021**	Q3 2021	Q4 2020
Increase (decrease) in cash and cash equivalents	**$ 17.6**	$ 19.6	$ (24.0)
Operating activities	**$ 34.8**	$ 34.6	$ 11.0
Financing activities	**$ (1.3)**	$ (1.2)	$ (0.9)
Investing activities	**$ (15.9)**	$ (13.8)	$ (34.1)

Operating Activities

Cash generated from operating activities in the fourth quarter of 2021 was $34.8 million, broadly comparable to the third quarter of 2021 and up $23.8 million from the cash generated of $11.0 million in the fourth quarter of 2020. Compared to the fourth quarter of 2020, the improvement in operating cash flows was largely due to favourable movements in non-cash working capital, offset in part by reduced operating earnings quarter-over-quarter. The former primarily reflected lower accounts receivable balances at the end of the current period and a drawdown of pulp inventories quarter-over-quarter.

Financing Activities

Cash used for financing activities in the fourth quarter of 2021 was $1.3 million, mostly in line with the third quarter of 2021, and $0.4 million higher than cash used of $0.9 million in the fourth quarter of 2020. Cash used for financing activities in the current quarter primarily reflected interest expense and fees associated with the extension of the maturity date of the Company's operating loan facility and non-revolving term debt combined with financing fees associated with letters of credit.

Investing Activities

Cash used for investing activities of $15.9 million in the current and prior quarter was primarily comprised of maintenance-of-business capital. In the fourth quarter of 2020, cash used for investing activities largely reflected Northwood's RB5 capital upgrades, the completion of the construction of a new water treatment plant servicing the Company's PG and Intercontinental NBSK pulp mills, as well as maintenance-of-business capital.

SPECIFIC ITEMS AFFECTING COMPARABILITY

Specific Items Affecting Comparability of Net Income (Loss)

Factors that impact the comparability of the quarters are noted below:

After-tax impact (millions of Canadian dollars, except for per share amounts)	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Net income (loss), as reported	**$ (101.1)**	**$ 12.1**	**$ 36.2**	**$ 8.4**	$ (10.2)	$ (18.1)	$ (1.1)	$ 7.0
Asset impairment	**$ 69.4**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -	$ -
Adjusted net income (loss)[21]	**$ (31.7)**	**$ 12.1**	**$ 36.2**	**$ 8.4**	$ (10.2)	$ (18.1)	$ (1.1)	$ 7.0
Net income (loss) per share (EPS), as reported	**$ (1.55)**	**$ 0.19**	**$ 0.55**	**$ 0.13**	$ (0.16)	$ (0.28)	$ (0.02)	$ 0.11
Net impact of above items per share	**$ 1.06**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -	$ -
Adjusted net income (loss) per share[21]	**$ (0.49)**	**$ 0.19**	**$ 0.55**	**$ 0.13**	$ (0.16)	$ (0.28)	$ (0.02)	$ 0.11

[21] Adjusted net income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

OUTLOOK

Pulp Markets

In early 2022, global softwood kraft pulp market conditions have strengthened somewhat, largely in response to unexpected global supply outages and a heavily congested supply chain network, combined with an uptick in market demand from China. Notwithstanding high inventory levels and the potential for ongoing supply chain driven pricing volatility, global softwood kraft pulp markets are projected to continue to strengthen moderately through the first quarter of 2022, reflecting the ongoing improvement in demand from China coupled with tight global supply. Modest increases experienced in the high yield BCTMP market through the fourth quarter of 2021 are anticipated to continue through the first quarter of 2022.

Despite the recent uplift in global pulp markets, the limited and intermittent rail service in BC experienced in recent weeks has put further pressure on an already constrained global logistics network. Consequently, as previously announced, the Company's results in the first quarter of 2022 will reflect a minimum six-week curtailment at Taylor, with a projected 25,000 tonnes of reduced BCTMP production. The Company also anticipates that the transportation disruptions will result in lower projected NBSK pulp and paper shipment volumes in the first quarter of 2022. The Company will continue to monitor and adapt to the unfolding logistic situation over the coming weeks. In addition, global inflationary cost increases, particularly for chemicals, are projected to weigh on the Company's results in the first quarter of 2022.

Furthermore, the Company's results in the first quarter of 2022 will reflect the impact of the RB1 capital-related outage at Northwood into late-March, including reduced pulp production (approximately 70,000 tonnes) and shipments, as well as higher pulp unit manufacturing costs. As the RB1 rebuild approaches completion a key focus of the Company's kraft pulp mills in 2022 will be on improving operational reliability and closely managing manufacturing and fibre costs.

No major maintenance outages are planned for the first quarter of 2022. In the second quarter of 2022, a maintenance outage is currently planned at Northwood and Taylor, with a projected 25,000 tonnes of reduced NBSK pulp production and an estimated 5,000 tonnes of reduced BCTMP production, respectively. In addition, a maintenance outage is scheduled at the Intercontinental NBSK pulp mill in the third quarter of 2022 with a projected 10,000 tonnes of reduced NBSK pulp production.

Paper Markets

Bleached kraft paper markets are anticipated to continue to strengthen through the first quarter of 2022, as growing demand for paper products, largely driven by the environmental, social and regulatory pressures to eliminate single-use plastics, is combined with tight supply and low inventories in the North American and Asian paper markets.

NON-IFRS FINANCIAL MEASURES

Throughout this MD&A, reference is made to certain non-IFRS financial measures which are used to evaluate the Company's performance but are not generally accepted under IFRS. The following table provides a reconciliation of these non-IFRS financial measures to figures reported in the Company's consolidated financial statements:

(millions of Canadian dollars)	**Q4 2021**	Q3 2021	**YTD 2021**	Q4 2020	YTD 2020
Reported operating income (loss)	**$ (137.2)**	$ 15.8	**$ (65.5)**	$ (28.3)	$ (56.1)
Asset impairment	**$ 95.0**	$ -	**$ 95.0**	$ -	$ -
Inventory write-down (recovery), net	**$ 1.1**	$ 3.5	**$ 2.4**	$ (3.0)	$ (8.5)
Adjusted operating income (loss)	**$ (41.1)**	$ 19.3	**$ 31.9**	$ (31.3)	$ (64.6)
Amortization	**$ 22.6**	$ 22.0	**$ 87.3**	$ 22.1	$ 82.2
Adjusted operating income (loss) before amortization and impairment	**$ (18.5)**	$ 41.3	**$ 119.2**	$ (9.2)	$ 17.6

(millions of Canadian dollars, except ratios)	**2021**	2020
Reported operating income (loss)	**$ (65.5)**	$ (56.1)
Other income (expense), net	**$ 9.5**	$ 30.7
Return	**$ (56.0)**	$ (25.4)
Average invested capital[22]	**$ 736.8**	$ 793.8
Return on invested capital (ROIC)	**(7.6)%**	(3.2)%

[22] Average invested capital represents the average during the period of total assets excluding cash and cash equivalents and total liabilities excluding term debt, retirement benefit obligations and deferred taxes.

(millions of Canadian dollars, except ratios)	**As at December 31, 2021**	As at December 31, 2020
Term-debt	**$ 50.0**	$ 50.0
Less: cash and cash equivalents	**$ 73.3**	$ 6.8
Net debt (cash)	**$ (23.3)**	$ 43.2
Total equity	**$ 495.0**	$ 532.5
Total capitalization	**$ 471.7**	$ 575.7
Net debt (cash) to total capitalization	**(4.9%)**	7.5%

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 quarterly 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 (loss).

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

	December 31, 2021		December 31, 2020	
	Defined Benefit Pension Plans	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Discount rate	**3.0%**	**3.0%**	2.7%	2.7%
Rate of compensation increases	**3.0%**	**n/a**	3.0%	n/a
Initial medical cost trend rate	**n/a**	**5.0%**	n/a	5.0%
Ultimate medical cost trend rate	**n/a**	**4.5%**	n/a	4.5%
Year ultimate rate is reached	**n/a**	**2025**	n/a	2025

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, 2021 is between 21.3 years and 24.3 years. As at December 31, 2021, the weighted average duration of the defined benefit plan obligation, which reflects the average age of the plan members, is 13.8 years. The weighted average duration of the other benefit plans is 12.1 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 1 to 30 years and have been discounted at risk-free rates ranging from 0.6% to 1.7%. 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 Impairment

As previously indicated, the Company recorded an asset impairment of $95.0 million in its pulp segment in 2021.

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.

As a result of increased fibre cost pressures and ongoing uncertainty surrounding fibre availability for CPPI's pulp mills, the Company performed an impairment test as of December 31, 2021 on the property, plant and equipment of the pulp and paper cash-generating unit ("CGU").

The recoverable amount of the Company's property, plant and equipment within the pulp and paper CGU was determined based on an assessment of value in use, estimated using a discounted cash flow model. This discounted cash flow model was projected based on past experience and actual operating results as well as Management's assessment of future trends in the pulp and paper industry, based on both external and internal sources of data. Significant assumptions include future production volume, commodity prices, fibre and production costs, as well as the discount rate. Other assumptions include applicable foreign exchange rates, operating rates of the assets, and the future capital required to maintain the assets in their current operating condition. Estimated future cash flows were discounted at a rate of 8% (11% before tax), based on CPPI's weighted average cost of capital for 2021.

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 $2.4 million at December 31, 2021.

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 enhance its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws. The Company's total capital expenditures during 2021 were $78.7 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 risks and opportunities related to climate change. These risks include, but are not limited to, chronic and acute physical risks such as the increasing frequency and severity of weather conditions, forest fires, hurricanes, 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 is no guarantee that these arrangements will fully protect the Company against such losses.

There are also transition risks associated with climate change. These include changes in laws, regulations and industry standards associated with climate change. The Company monitors all regulatory changes to assess their impact on operations including any climate-related regulations. The Company considers adaptation and mitigation strategies to manage and reduce greenhouse gas emissions and is in the process of establishing a decarbonization roadmap. However, there is no guarantee that these efforts will be effective, and these risks may lead to increased capital expenditure or payment of carbon taxes or could adversely affect our operations or financial conditions.

The Company is committed to its sustainable forest management practices, which includes climate change, in consultation with Indigenous Partners and stakeholders. However, there may be reputational risks due to rising prominence of environment, social and governance concerns among the Company's stakeholders and Indigenous Partners which could impact public opinions about the Company and its industry and could adversely affect its reputation, business, strategy and operations. The Company continues to work closely with our Indigenous Partners and stakeholders to understand their interests, identify risks and opportunities and gauge effectiveness of our management actions.

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 COVID-19 pandemic. During the year ended December 31, 2021, there were no significant adverse impacts of COVID-19 on the Company. However, Management continues to closely monitor its effects on the Company's operating plan, liquidity, cash flows, and the valuation of its 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 2021, approximately 60% of the fibre used by the Company was derived from the Fibre Supply Agreements with Canfor. The current market-based pricing under one of the Company's Fibre Supply Agreements with Canfor expired on June 30, 2021. The Company and Canfor agreed to extend the pricing agreement with terms currently under review and expected to be finalized in the second quarter of 2022. 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 2021, the Company's top five customers accounted for approximately 41% of its pulp sales and one customer in the pulp segment accounted for 16% 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. Pension plan 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 valuations completed at least once every three years, with the most recent actuarial valuation for the largest plan conducted as of December 31, 2020, and completed in 2021.

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 $12.1 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation by an estimated $15.0 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 Issues

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.

The Company, in conjunction with Canfor, has systems in place to identify, account for and appropriately address potential environmental liabilities. The Company also has governance in place including an Environmental, Health and Safety Committee of the Board, a Corporate Environmental Management Committee including Officers of the Company, and environmental professionals on staff to manage potential risks, issues and liabilities.

The Company, in conjunction with Canfor, has in place internal policies and procedures under which all operations are regularly audited for compliance with laws and accepted standards and with its environmental management system requirements. CPPI's pulp mills employ environmental management systems and are certified under the ISO 14001 Environmental Management System Standard.

Further discussion of environmental issues is included in the Company's Annual Information Form, incorporated by reference herein.

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 that are readily convertible into known amounts of cash within three months or less from the date of acquisition. The cash and cash equivalents balance at December 31, 2021 is $73.3 million.

CPPI utilizes credit insurance to manage the risk associated with trade accounts receivables. As at December 31, 2021, approximately 89% 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, 2021 is $67.7 million before a loss allowance of $1.0 million. At December 31, 2021, approximately 100% 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 debt.

At December 31, 2021, CPPI had cash and cash equivalents of $73.3 million, with $97.1 million available and undrawn on its operating loan facility. As a result, at December 31, 2021, the Company had available liquidity of $170.4 million, accounts payable and accrued liabilities of $147.0 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 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 $0.5 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, 2021 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 2022 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[23]	$	11
BCTMP – US$10 change per tonne[23]	$	3
Natural gas cost – $1 change per gigajoule	$	12
Chip cost – $1 change per tonne	$	3
Canadian dollar – US$0.01 change per Canadian dollar[24]	$	8

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

[24] 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, including those governing the use, storage, handling, generation, treatment, emission, release, discharge and disposal of certain hazardous materials and wastes, the remediation of contaminated soil and ground water and the health and safety of employees. 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 BC passed legislation (*Declaration on the Rights of Indigenous People 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 forestry industry.

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 People Act*. The Bill proceeded through the legislative process and was enacted into law in June 2021.

Canadian judicial decisions have recognized the continued existence of Indigenous rights and title to lands continuously and exclusively used or occupied by Indigenous groups. 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.

On June 29, 2021, the BC Supreme Court released its decision in *Yahey v British Columbia*, in which it ruled that the Crown had unjustifiably infringed the Treaty 8 rights of the Blueberry River First Nation ("BRFN") "in permitting the cumulative impacts of industrial development to meaningfully diminish BRFN's ability to exercise its treaty rights in its traditional territory" (the "Blueberry River decision"). The Blueberry River decision has potentially significant implications on regulatory and operational requirements for industrial development activities in northeast BC and could extend to other areas in Canada where similar claims may be made.

On October 7, 2021, BRFN and the Province of BC reached an initial agreement that is described by the Province as a first step in responding to the Blueberry River decision, which requires the Province and BRFN to work together to develop land management processes in BRFN territory. As part of this initial agreement, a number of forestry and oil and gas projects which were permitted or authorized prior to the Blueberry River decision and where activities had not started, including some held by Canfor, will be allowed to proceed. However, certain other previously approved authorizations, which relate to areas of high cultural importance, will not proceed without further negotiation and agreement by the Province with BRFN, including some held by Canfor but which are not material to its current operations. Negotiations between the Province of BC and BRFN are now focused on establishing a process that assesses and manages the impacts of future industrial development activities, including new permits and authorizations, on BRFN's Treaty rights. The timing and outcome of these negotiations and their potential impacts on activities in the Treaty 8 area are not presently known.

The impacts of BC's *Declaration on the Rights of Indigenous Peoples Act*, the federal government's Bill C-15, the William decision and the Blueberry River decision on the timber supply from Crown lands is unknown at this time. However, there is the potential for adverse timber supply and operational implications associated with the outcome of these ongoing negotiations and issues.

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, in conjunction with Canfor, 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 expired on April 30, 2021. A new four-year agreement was ratified in February 2022 and will expire on April 30, 2025.

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 market-based pricing under one of the Company's Fibre Supply Agreements with Canfor expired on June 30, 2021. The Company and Canfor agreed to extend the pricing agreement with terms currently under review and expected to be finalized in the second quarter of 2022. 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 MPB infestation in the region continues to impact overall fibre supply for the BC Interior sawmills. The Allowable Annual Cut ("AAC") has been reduced in many areas, but in several cases, the AAC has not yet been apportioned by Government, resulting in a log supply and demand imbalance. In 2021, the Prince George Timber Supply Area ("PGTSA") was directly impacted, with further reductions to the AAC of the PGTSA anticipated 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, suffer labour-related disruptions, 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 and severe weather, 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, rail capacity constraints, and significant weather events including wildfires and flooding in the BC region in the current year, 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 competitive market prices.

OUTSTANDING SHARE DATA

At March 1, 2022 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, 2021 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 the Company's ICFR during the year ended December 31, 2021 that materially affected, or would be reasonably likely to materially affect, such controls. Based upon their evaluation of these controls for the year ended December 31, 2021, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2021 Annual Information Form, is available at www.sedar.com or at www.canfor.com.