



2020

FINANCIAL STATEMENTS

CANFOR PULP PRODUCTS INC.

MANAGEMENT'S RESPONSIBILITY

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

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

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

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

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

February 24, 2021

"Don B. Kayne"

Don B. Kayne
Chief Executive Officer

"Alan Nicholl"

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



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canfor Pulp Products Inc.

Opinion

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

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

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

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

Basis for Opinion

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

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

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

Key Audit Matters

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



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

Evaluation of the measurement of accrued benefit obligations

Description of the matter

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

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

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

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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



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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

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



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

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

KPMG LLP

Chartered Professional Accountants

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

Vancouver, Canada
February 24, 2021

Canfor Pulp Products Inc. Consolidated Balance Sheets

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

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

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

APPROVED BY THE BOARD

"S.E. Bracken-Horrocks"

Director, S.E. Bracken-Horrocks

"C.A. Pinette"

Director, C.A. Pinette

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

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

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

Canfor Pulp Products Inc.
Consolidated Statements of Other Comprehensive Income

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

Consolidated Statements of Changes in Equity

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

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

Canfor Pulp Products Inc.
Consolidated Statements of Cash Flows

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

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

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

Canfor Pulp Products Inc. Notes to the Consolidated Financial Statements

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

1. Reporting Entity

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

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

2. Basis of Preparation

Statement of compliance

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

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

Basis of measurement

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

Use of estimates and judgments

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

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

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

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

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

3. Significant Accounting Policies

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

Basis of consolidation

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

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

Cash and cash equivalents

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

Financial Instruments

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

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

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

Classification and measurement of financial assets

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

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

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

Classification and measurement of financial liabilities

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

Impairment

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

Inventories

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

Leases

Lease Definition

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

Measurement of Right-of-Use Assets and Lease Obligations

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

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

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

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

Recognition Exemptions

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

Property, plant and equipment

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

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

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

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

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

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

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

Intangible assets

Computer software

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

Government assistance

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

Asset impairment

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

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

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

Employee future benefits

Defined contribution plans

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

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

Defined benefit plans

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

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

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

Provisions

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

Asset retirement obligations

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

Revenue recognition

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

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

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

Income taxes

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

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

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

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

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

Foreign currency translation

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

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

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

Segment reporting

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

4. Inventories

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

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

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

5. Property, Plant and Equipment and Intangible Assets

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

¹ Net of capital expenditures financed by government grants.

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

6. Leases

(a) Right-of-Use Assets

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

(b) Lease Obligations

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

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

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

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

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

7. Accounts Payable and Accrued Liabilities

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

8. Operating Loan

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

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

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

The facility has certain financial covenants including a covenant based on maximum debt to total capitalization of the Company. As at December 31, 2020, the Company was fully in compliance with all covenants relating to its operating loan facility.

9. Term Debt

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

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

Fair value of total term debt

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

10. Employee Future Benefits

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

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

Defined benefit plans

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

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

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

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

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

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

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

Annuity contracts

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

Medical Services Plan changes

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

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

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

Components of pension cost

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

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

Significant assumptions

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

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

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

Sensitivity analysis

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

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

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

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

Defined contribution and other plans

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

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

11. Asset Retirement Obligations

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

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

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

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

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

12. Share Capital

Authorized

Unlimited number of common shares, no par value.

Issued and fully paid

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

³Based on trade date.

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

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

Normal course issuer bid

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

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

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

13. Finance Expense, Net

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

14. Income Taxes

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

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

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

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

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

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

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

15. Net Change in Non-Cash Working Capital

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

16. Related Party Transactions

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

In 2020, the Company depended on Canfor to provide approximately 68% (December 31, 2019 – 70%) of its fibre supply as well as certain key business and administrative services. As a result of these relationships, the Company considers its operations to be dependent on its ongoing relationship with Canfor. In 2018, the Company and Canfor entered into a new pricing agreement, which included a market-based chip pricing formula. The new pricing agreement was effective July 1, 2018, for a three-year term, to June 30, 2021.

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

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

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

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

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

Key management personnel

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

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

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

17. Segment Information

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

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

Sales between the pulp and paper segments are accounted for at prices that approximate fair value. These include sales of slush pulp from the pulp segment to the paper segment.

Information regarding the operations of each reportable segment is included in the following table. The accounting policies of the reportable segments are described in Note 3.

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

(millions of Canadian dollars)	Pulp		Paper		Unallocated		Elimination Adjustment		Total	
Year ended December 31, 2020										
Sales from contracts with customers	\$	827.9	\$	162.6	\$	-	\$	-	\$	990.5
Sales to other segments		74.4		-		-		(74.4)		-
Operating income (loss)		(70.4)		24.0		(9.7)		-		(56.1)
Amortization		79.2		2.9		0.1		-		82.2
Capital expenditures⁴		71.3		1.4		0.6		-		73.3
Identifiable assets		814.7		63.8		42.3		-		920.8
Year ended December 31, 2019										
Sales from contracts with customers	\$	918.9	\$	168.4	\$	0.6	\$	-	\$	1,087.9
Sales to other segments		88.9		-		-		(88.9)		-
Operating income (loss)		(43.9)		22.9		(10.0)		-		(31.0)
Amortization		89.3		3.5		0.1		-		92.9
Capital expenditures ⁴		96.4		5.1		1.5		-		103.0
Identifiable assets		809.1		66.3		45.4		-		920.8

⁴ Capital expenditures represent cash paid for capital assets during the periods and include capital expenditures that were partially financed by government grants.

Geographic information

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

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

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

18. Commitments and Contingencies

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

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

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

(a) Energy Agreements

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

(b) Canada Emergency Wage Subsidy

On March 27, 2020, the Canada Emergency Wage Subsidy ("CEWS") program was introduced by the Government of Canada, reimbursing eligible employers who have experienced the required reduction in revenue for a portion of salaries paid out to employees during the coronavirus ("COVID-19") pandemic.

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

(c) Insurance Proceeds

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

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

19. Risks and Uncertainties

Financial risk management

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

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

Credit risk:

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

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

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

Liquidity risk:

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

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

Market risk:

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

(i) Interest rate risk:

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

(ii) *Currency risk:*

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

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

(iii) *Commodity price risk:*

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

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

(iv) *Energy price risk:*

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

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

Capital management

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

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

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

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

Coronavirus outbreak

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. COVID-19's impact on global markets has been significant and in response, CPPI announced a series of significant measures. Due to a shortage of economically viable fibre in the region caused by COVID-19's impact on sawmill operating rates, the

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

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

20. Financial Instruments

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

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

The three levels of the fair value hierarchy are:

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

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

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

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