2019

MANAGEMENT'S DISCUSSION & ANALYSIS

CANFOR PULP PRODUCTS INC.

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This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the year ended December 31, 2019 relative to the year ended December 31, 2018, and the financial position of the Company at December 31, 2019. It should be read in conjunction with CPPI's Annual Information Form and its audited consolidated financial statements and accompanying notes for the years ended December 31, 2019 and 2018 (available at www.canfor.com). The financial information contained in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. Certain comparative amounts have been reclassified to conform to current presentation. The information in this report is as at February 20, 2020.

Forward Looking Statements

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

COMPANY OVERVIEW

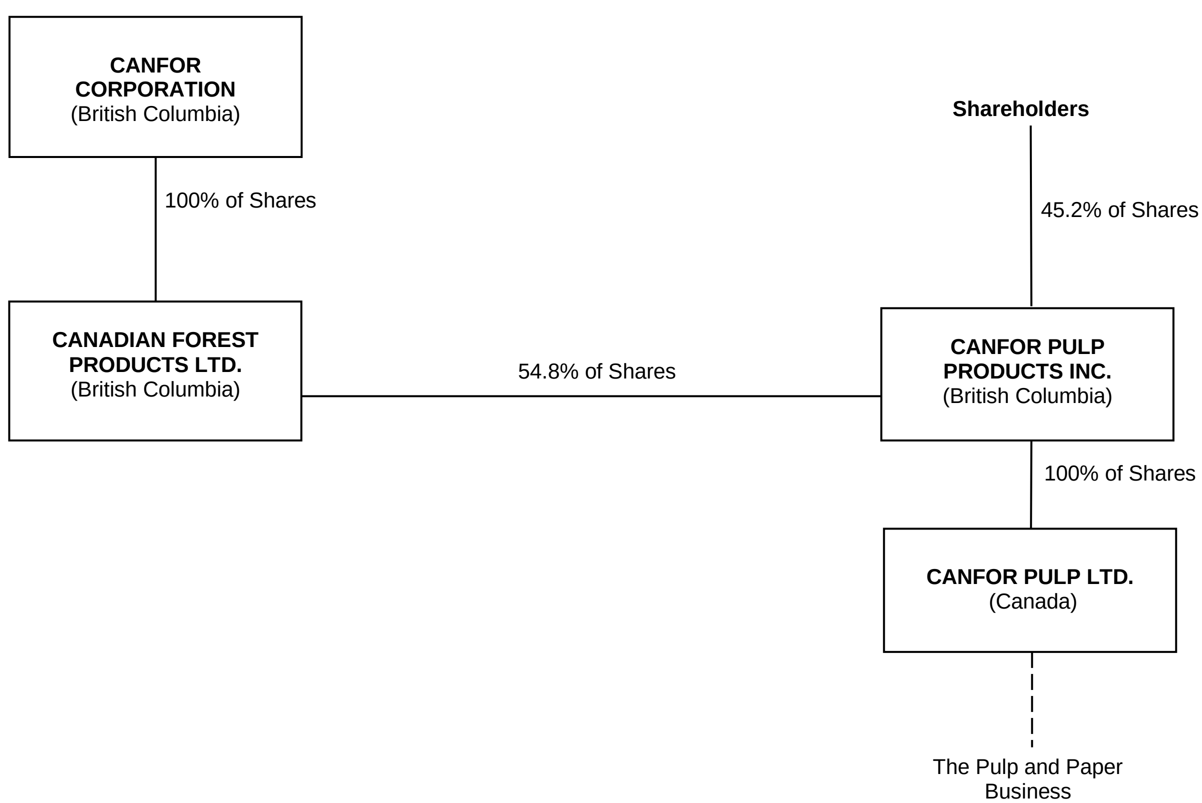
CPPI is a company incorporated and domiciled in Canada and listed on The Toronto Stock Exchange. The consolidated financial statements of the Company as at and for the year ended December 31, 2019 comprise the Company and its subsidiary entities. The Company's operations consist of two Northern Bleached Softwood Kraft ("NBSK") pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia ("BC"); a Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill located in Taylor, BC and a marketing group based in Vancouver, BC.

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

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

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

Simplified Ownership Structure



Pulp

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

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

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

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

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

Paper

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

Business Strategy

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

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

OVERVIEW OF 2019

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

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

[1] Resource Information Systems, Inc.

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

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

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

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

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

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

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

Markets and Pricing

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

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

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

The following charts show the NBSK pulp list price movements in 2019, before taking account of customer discounts and rebates (Chart 1), global pulp shipments by destination (Chart 2), and the global pulp inventory levels (Chart 3).

Chart 1

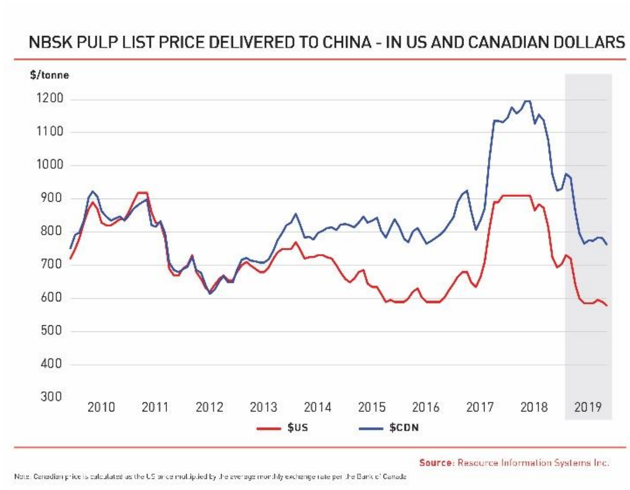


Chart 2

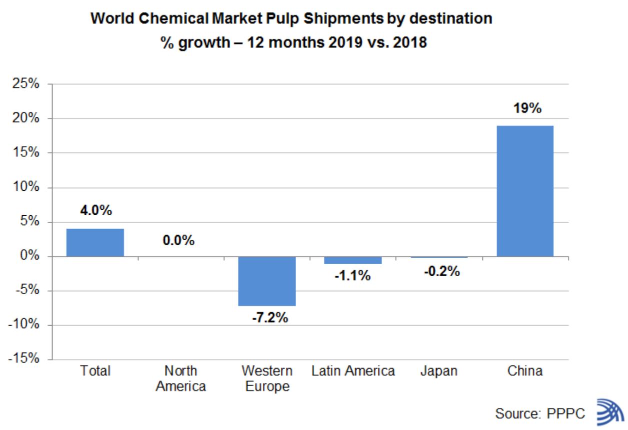
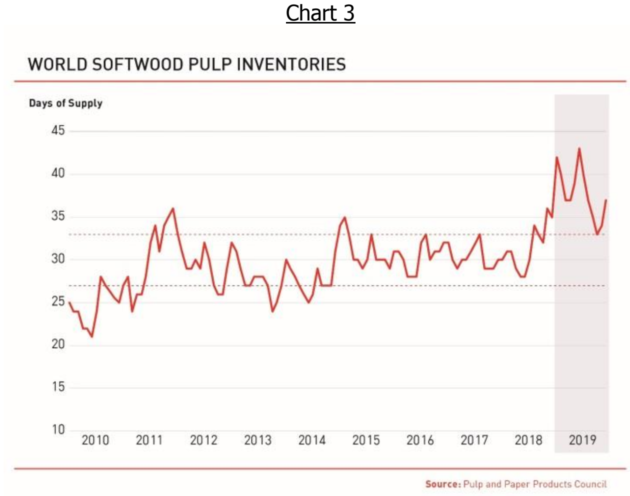


Chart 3



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

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

Fibre Supply

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

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

Capital and Operations Review

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

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

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

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

OVERVIEW OF CONSOLIDATED RESULTS – 2019 COMPARED TO 2018

Selected Financial Information and Statistics

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

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.
[2] Amortization includes amortization of certain capitalized major maintenance costs.
[3] Consolidated Return on Invested Capital ("ROIC") is equal to operating income/loss, plus realized gains/losses on derivatives and other income/expense, divided by the average invested capital during the year. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital.
[4] Source – Bank of Canada (monthly average rate for the period).

Selected Cash Flow Information

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

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.
[5] Amortization includes amortization of certain capitalized major maintenance costs.
[6] On adoption of IFRS 16 *Leases*, payment of lease obligations represents cash payments towards reduction of outstanding lease obligations and related interest, which were previously included with cash from operating activities.

OPERATING RESULTS BY BUSINESS SEGMENT – 2019 COMPARED TO 2018

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

CPPI's operations include the Pulp and Paper segments.

Pulp

Selected Financial Information and Statistics – Pulp

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

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

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

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

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

Markets

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

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

Sales

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

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

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

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

Operations

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

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

Paper

Selected Financial Information and Statistics – Paper

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

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

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

Markets

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

Sales

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

Operations

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

Unallocated and Other Items

Selected Financial Information

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

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

Corporate Costs

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

Finance Expense, Net

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

Other Income (Expense), Net

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

Income Tax Recovery (Expense)

The Company recorded an income tax recovery of $11.1 million in 2019 with an overall effective tax rate of 27%.

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

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

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

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

Other Comprehensive Income

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

For 2019, a gain of $12.2 million (before tax) was recorded in Other Comprehensive Income, as losses on the Company's defined benefit pension plans were more than offset by gains on other non-pension post-employment benefits. Gains on the Company's non-pension post-employment benefits primarily related to a 50% reduction in Medical Services Plan ("MSP") premiums following a change in legislation in BC. The 50% reduction in MSP in 2019, when combined with the initial 50% reduction recognized in 2017, resulted in a gain of $56.7 million, or $0.87 per common share ($41.8 million after tax, or $0.64 per common share), reflected as a reduction in the Company's non-pension post-retirement benefit obligation. The losses associated with the defined benefit pension plans principally reflected unfavourable actuarial experience adjustments and a 0.6% reduction in the discount rate in the current year, offset in part by a higher than anticipated return on plan assets.

In 2018, the gain of $5.5 million (before tax) recognized in Other Comprehensive Income largely reflected gains on other non-pension post-employment benefits, partially offset by losses on the Company's defined benefit pension plan.

In 2018, the Company purchased $8.9 million of buy-in annuities through its defined benefit pension plans, increasing total annuities purchased to $86.0 million at December 31, 2018. Transaction costs of $0.7 million related to the purchase were recognized in Other Comprehensive Income, principally reflecting the difference in the annuity rate compared to the discount rate used to value the obligations on a going concern basis. In 2019, no annuities were purchased by the Company. Future cash flows from the annuities will match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations.

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

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

SUMMARY OF FINANCIAL POSITION

The following table summarizes CPPI's financial position as at December 31, 2019 and 2018:

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

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

Reflecting 2019's market conditions, operating rates, as well as the Company's management of working capital, the ratio of current assets to current liabilities at the end of 2019 was 2.1:1, compared to 1.9:1 at the end of 2018. See further discussion in "Changes in Financial Position" section.

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

CHANGES IN FINANCIAL POSITION

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

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

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

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

Operating Activities

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

Financing Activities

In 2019, cash generated by financing activities was $42.5 million, compared to cash used of $166.6 million in the prior year. Financing activities in 2019 comprised the receipt of a $50.0 million term loan and $14.0 million draw-down of the operating loan facility, partially offset by quarterly dividend payments totaling $16.4 million (reflecting a dividend of $0.0625 per common share in each quarter). Cash used for financing activities in 2018 principally related to a special dividend to shareholders totaling $146.8 million (or $2.25 per common share) as a result of strong cash generated by the business, combined with quarterly dividends totaling $16.4 million (also $0.0625 per common share in each quarter). Finance expenses paid during 2019 were broadly in line with the prior year.

Investing Activities

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

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loan and Term Debt

At December 31, 2019, the Company had a $110.0 million unsecured operating loan facility, with $14.0 million of the facility drawn, and $13.2 million reserved for several standby letters of credit, leaving $82.8 million available and undrawn on its operating loan facility at the end of the year.

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

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

Debt Covenants

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

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

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

Management reviews results and forecasts to monitor the Company's compliance with these covenant requirements. CPPI was fully in compliance with all its debt covenants for the year ended December 31, 2019, and expects to remain so for the foreseeable future.

Normal Course Issuer Bid

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

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

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

2020 Projected Capital Spending and Debt Repayments

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

Derivative Financial Instruments

Subject to risk management policies approved by its board of directors, CPPI, from time to time, uses derivative instruments, such as forward exchange contracts and option contracts to hedge future movements of exchange rates and futures and forward contracts to hedge pulp prices, commodity prices and energy costs. See section "Liquidity and Financial Requirements" for further details. As at December 31, 2019 the Company had no derivative financial instruments outstanding.

Commitments

Contractual obligations the Company is committed to include:

- Other contractual commitments, not previously mentioned, total $63.9 million, which includes commitments for the construction of capital assets and other working capital items. Commitments related to leases of property, plant and equipment are detailed in Note 7 of CPPI's 2019 consolidated financial statements.
- The Company has energy purchase agreements with a BC energy company (the "Energy Agreements") for all three of the Company's kraft pulp mills. Two of these agreements are for the sale of incremental electrical energy and the third agreement is for load displacement. One of these Energy Agreements includes incentive funding from a BC energy company to support capital investments for the new turbo-generator. All agreements include performance guarantees to ensure minimum contractual amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, the Company has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2019 the Company had posted $7.2 million of standby letters of credit under these agreements, and had no repayment obligations under the terms of any of these agreements.

- The Company's asset retirement obligations represent estimated undiscounted future payments of $9.3 million to remediate the landfills at the end of their useful lives. Payments relating to landfill closure costs are expected to occur at periods ranging from 1 to 32 years which have been discounted at risk free rates ranging from 1.7% to 1.8%. The estimated discounted value is $6.6 million, and the amount is included in Other Long-Term Provisions.
- Obligations to pay pension and other post-employment benefits, for which a net liability for accounting purposes at December 31, 2019 was $68.6 million. As at December 31, 2019, CPPI estimated that it would make contribution payments of $5.0 million to its defined benefit pension plans in 2020 based on the last actuarial valuation for funding purposes.
- Purchase and contractual obligations in the normal course of business. Purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on the Company's requirements in any given year.

TRANSACTIONS WITH RELATED PARTIES

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

In 2019, the Company depended on Canfor to provide approximately 70% of its fibre supply (2018: 66%) as well as certain key business and administrative services. As a result of these relationships, the Company considers its operations to be dependent on its ongoing relationship with Canfor. In 2018, the Company and Canfor entered into a new pricing agreement, which included a market-based chip pricing formula. The new pricing agreement was effective July 1, 2018, for a three-year term, to June 30, 2021.

In 2019, the Company purchased wood chips, logs and hog fuel from Canfor sawmills in the amount of $234.8 million (2018: $252.8 million).

Canfor provides certain business and administrative services to the Company under a services agreement. The total amount charged for the services provided by Canfor in 2019 was $16.3 million. These amounts are included in manufacturing and product costs and selling and administration costs within CPPI's 2019 consolidated financial statements.

The Company provides certain business and administrative services to Canfor under an incidental services agreement. The total amount charged for the services provided to Canfor in 2019 was $3.5 million. These amounts are included as cost recoveries in manufacturing and product costs and selling and administration costs within CPPI's 2019 consolidated financial statements. At December 31, 2019, an outstanding balance of $19.3 million was due to Canfor.

The Jim Pattison Group is Canfor's largest shareholder with an ownership interest of 50.9% at December 31, 2019. During 2019, the Company sold paper to subsidiaries owned by The Jim Pattison Group totaling $3.7 million. The Company also made purchases from subsidiaries owned by The Jim Pattison Group totaling $0.7 million. No amounts related to these sales or purchases were outstanding as at December 31, 2019.

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

LICELLA PULP JOINT VENTURE

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

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

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

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

CO-MARKETING ARRANGEMENT WITH UPM-KYMMENE

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

SELECTED QUARTERLY FINANCIAL INFORMATION

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

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

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

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

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

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

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

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

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

THREE-YEAR COMPARATIVE REVIEW

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

FOURTH QUARTER RESULTS
Overview

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

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

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

Pulp

Selected Financial Information and Statistics – Pulp

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

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

Markets

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

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

Sales

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

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

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

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

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

Operations

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

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

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

Paper

Selected Financial Information and Statistics – Paper

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

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

Markets

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

Sales

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

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

Operations

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

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

Unallocated Items

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

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

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

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

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

Other Comprehensive Income (Loss)

In the fourth quarter of 2019, the Company recorded a gain of $0.1 million (before tax) related to changes in the valuation of the Company's employee future benefits plans, as unfavourable actuarial experience adjustments, combined with increased interest and service costs, were more than offset by a higher than anticipated return on plan assets.

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

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

Summary of Financial Position

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

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

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

Operating Activities

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

Financing Activities

Cash generated from financing activities in the fourth quarter of 2019 was $8.5 million, compared to cash generated of $44.3 million in the third quarter of 2019 and cash used of $151.7 million in the fourth quarter of 2018. Cash generated by financing activities in the current quarter included a $14.0 million draw down of the Company's operating loan facility, offset in part by payment of a quarterly dividend of $4.1 million ($0.0625 per common share). Financing activities in the third quarter of 2019 included to the receipt of a $50.0 million term loan, partially offset by payment of a quarterly dividend of $4.1 million ($0.0625 per common share). Cash used for financing activities in the fourth quarter of 2018 included the payment of a special dividend ($2.25 per common share) in addition to the quarterly dividend, which combined, totaled $150.9 million.

Investing Activities

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

OUTLOOK

Pulp Markets

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

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

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

Paper Markets

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

CRITICAL ACCOUNTING ESTIMATES

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

Employee Future Benefits

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

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

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

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

Assumed discount rates and medical cost trend rates have a significant effect on the accrued retirement benefit obligation and related plan assets. In addition, the average life expectancy of a 65-year-old at December 31, 2019 and December 31, 2018 is between 21.1 years and 24.2 years. As at December 31, 2019, the weighted average duration of the defined benefit plan obligation, which reflects the average age of the plan members, is 12.8 years (December 31, 2018 - 12.0 years). The weighted average duration of the other benefit plans is 13.7 years (December 31, 2018 – 13.3 years).

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

Asset Retirement Obligations

CPPI records the estimated fair value of liabilities for asset retirement obligations, such as landfill closures, in the period in which they are incurred. For landfill closure costs, the fair value is determined using estimated closure costs discounted over the estimated useful life. Payments relating to landfill closure costs are expected to occur at periods ranging from 1 to 32 years and have been discounted at risk-free rates ranging from 1.7% to 1.8%. The actual closure costs and periods of payment may differ from the estimates used in determining the year end liability. On initial recognition, the fair value of the liability is added to the carrying amount of the associated asset and amortized over its useful life. The liability is accreted over time through charges to earnings and reduced by actual costs of settlement.

Asset Impairments

CPPI reviews the carrying values of its long-lived assets, including property, plant and equipment and right-of-use assets, on a regular basis as events or changes in circumstances may warrant. An impairment loss is recognized in net income (loss) at the amount that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. No impairments were recorded in 2019 or 2018.

Deferred Taxes

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

Valuation of Finished Product Inventories

Finished product inventories are recorded at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. CPPI estimates the net realizable value of the finished goods inventories based on actual and forecasted sales orders. Based on these estimates, net write-downs of the Company's finished pulp and raw materials inventories from cost to net realizable totaled $10.7 million at December 31, 2019 (December 31, 2018 – nil).

RISKS AND UNCERTAINTIES

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

Capital Requirements

The pulp and paper industries are capital intensive, and the Company regularly incurs capital expenditures to expand its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws. The Company's total capital expenditures during 2019 were approximately $103.0 million. The Company anticipates available cash and operating loans, as well as cash generated from operations, will be sufficient to fund its operating needs and capital expenditures.

Climate Change

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

Competitive Markets

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

Currency Exchange Risk

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

Cyclicality of Product Prices

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

Dependence on Canfor

In 2019, approximately 70% of the fibre used by the Company was derived from the Fibre Supply Agreements with Canfor. The Company’s financial results could be materially adversely affected if Canfor is unable to provide the current volume of wood chips as a result of mill closures, whether temporary or permanent.

Dependence on Key Customers

In 2019, the Company’s top five customers accounted for approximately 34% of its pulp sales. In the event that the Company cannot maintain these customer relationships or the demand from these customers is diminished for any reason in the future, there is a risk that the Company would be forced to find alternative markets in which to sell its pulp, which in turn, could result in lower prices or increased distribution costs thereby adversely affecting its sales margins.

Dividends

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

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

Employee Future Benefits

The Company, in participation with Canfor, has several defined benefit plans, which provide pension benefits to certain salaried employees. Benefits are based on a combination of years of service and final average salary. Cash payments required to fund the pension plan are determined by actuarial valuation completed at least once every three years, with the most recent actuarial valuation for the largest plan completed as of December 31, 2017.

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

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

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

For CPPI's pension benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the accrued benefit obligation, net of annuity assets, by an estimated $11.9 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation by an estimated $14.8 million. These changes would only impact the Company's funding requirements in years where a new actuarial funding valuation was performed and regulatory approval for a change in funding contributions was obtained.

Environmental Laws, Regulations and Compliance

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

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

Financial Risk Management and Earnings Sensitivities

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

Financial Risk Management

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

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

(a) Credit risk:

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

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

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

(b) Liquidity risk:

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

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

(c) Market risk:

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

(i) *Interest Rate risk:*

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

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

(ii) *Currency risk:*

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

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax loss (gain) of approximately $0.9 million in relation to working capital balances denominated in US-dollars at year end (including cash, accounts receivable and accounts payable). A portion of the currency risk associated with US-dollar denominated sales is naturally offset by US-dollar denominated expenses. A portion of the remaining exposure is sometimes covered by foreign exchange collar contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US-dollars.

(iii) *Commodity price risk:*

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

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

(iv) *Energy price risk:*

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

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

Earnings Sensitivities

Estimates of the sensitivity of CPPI's pre-tax results to currency fluctuations and prices for its principal products, based on 2019 forecast production and year end foreign exchange rates, are set out in the following table:

(millions of Canadian dollars)	Impact on annual pre-tax earnings
NBSK Pulp – US$10 change per tonne [19]	$ 10
BCTMP – US$10 change per tonne [19]	$ 3
Natural gas cost – $1 change per gigajoule	$ 9
Chip cost – $1 change per tonne	$ 3
Canadian dollar – US$0.01 change per Canadian dollar[20]	$ 7

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

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

Governmental Regulations

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

Increased Industry Production Capacity

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

Indigenous Relations

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

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

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

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

Information Technology

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

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

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

Labour Agreements and Competition for Professional Skilled Labour

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

Maintenance Obligations and Facility Disruptions

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

Raw Material Costs

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

Transportation Services

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

OUTSTANDING SHARE DATA

At February 20, 2020 there were 65,233,559 common shares issued and outstanding.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the board of directors and the Audit Committee. The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2019, and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of ICFR, and confirm that there were no changes in these controls that occurred during the year ended December 31, 2019 which materially affected, or are reasonably likely to materially affect, the Company's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2019, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2019 Annual Information Form, is available at www.sedar.com or at www.canfor.com.