2021

FINANCIAL STATEMENTS

CANFOR PULP PRODUCTS INC.

MANAGEMENT'S RESPONSIBILITY

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

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

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

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

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

March 1, 2022

"*Donald B. Kayne*"	"*Patrick A. J. Elliott*"
Donald B. Kayne Chief Executive Officer	Patrick A. J. Elliott Chief Financial Officer and Senior Vice President, Sustainability

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canfor Pulp Products Inc.

Opinion

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

- the consolidated balance sheets as at December 31, 2021 and December 31, 2020
- the consolidated statements of income (loss) for the years then ended
- the consolidated statements of other comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Assessment of the recoverable amount of the pulp and paper segments

Description of the matter

We draw attention to Notes 3, 5 and 14 to the financial statements. The Entity identified indicators of impairment for its pulp and paper segments' property, plant and equipment and performed an impairment test to estimate their recoverable amounts. The Entity has recorded an impairment loss of $95.0 million related to its pulp segment for the year ended December 31, 2021. The recoverable amounts of the pulp and paper segments are determined based on an assessment of value in use. Significant assumptions used in determining value in use include future production volumes, commodity prices, fibre and production costs and the discount rate.

Why the matter is a key audit matter

We identified the assessment of the recoverable amounts of the pulp and paper segments as a key audit matter. The value in use was sensitive to changes in certain significant assumptions. Significant auditor judgment was required to evaluate the results of our audit procedures. Further, specialized skills and knowledge were required in evaluating the discount rate.

How the matter was addressed in the audit

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

- We evaluated the appropriateness of forecasted production volumes and forecasted fibre and production costs of the Entity by comparing to actual historical production volumes and fibre and production costs. We considered changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.
- We compared forecasted commodity prices to third party industry pricing publications and to the Entity's historical realized pulp and paper prices over the past five years.
- We involved a valuation professional with specialized skills and knowledge, who assisted in evaluating the discount rate used in the estimated value in use by comparing to a discount range that was independently developed using publicly available market data for comparable entities.

Evaluation of the measurement of accrued benefit obligations

Description of the matter

We draw attention to Notes 3 and 10 to the financial statements. The Entity has recorded net retirement benefit obligations of $60.6 million which consists of accrued benefit obligations of $210.5 million, offset by the fair market value of plan assets of $149.9 million. The accrued benefit obligations are based on actuarial determinations. In determining the estimated future costs, the Entity’s significant assumptions include discount rates, mortality assumptions and health care cost trend rates.

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

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

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2021 Canfor Pulp Products Inc. Annual Report".

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

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

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

We have nothing to report in this regard.

The information, other than the financial statements and the auditors’ report thereon, included in a document likely to be entitled “2021 Canfor Pulp Products Inc. Annual Report” is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

KPMG

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

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

KPMG LLP

Chartered Professional Accountants

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

Vancouver, Canada
March 1, 2022

Canfor Pulp Products Inc.
Consolidated Balance Sheets

(millions of Canadian dollars)		**As at December 31, 2021**		As at December 31, 2020
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**73.3**	$	6.8
Accounts receivable - Trade		**66.7**		64.3
- Other		**9.5**		13.6
Income taxes receivable		**-**		26.0
Inventories (Note 4)		**211.8**		188.5
Prepaid expenses and other		**10.8**		18.6
Total current assets		**372.1**		317.8
Property, plant and equipment and intangible assets (Note 5)		**464.8**		594.5
Right-of-use assets (Note 6(a))		**2.1**		2.0
Other long-term assets		**2.7**		6.5
Total assets	**$**	**841.7**	$	920.8
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 7)	**$**	**147.0**	$	161.6
Income taxes payable		**3.1**		-
Current portion of lease obligations (Note 6(b))		**0.8**		1.0
Total current liabilities		**150.9**		162.6
Term debt (Note 9)		**50.0**		50.0
Retirement benefit obligations (Note 10)		**62.9**		70.4
Lease obligations (Note 6(b))		**2.1**		1.5
Other long-term provisions (Note 11)		**7.0**		8.7
Deferred income taxes, net (Note 16)		**73.8**		95.1
Total liabilities	**$**	**346.7**	$	388.3
EQUITY				
Share capital (Note 12)	**$**	**480.8**	$	480.8
Retained earnings		**14.2**		51.7
Total equity	**$**	**495.0**	$	532.5
Total liabilities and equity	**$**	**841.7**	$	920.8

Commitments and Contingencies (Note 20)

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

APPROVED BY THE BOARD

"S.E. Bracken-Horrocks"

Director, S.E. Bracken-Horrocks

"The Hon. J.R. Baird"

Director, The Hon. J.R. Baird

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

(millions of Canadian dollars, except per share data)		Years ended December 31, **2021**		2020
Sales	**$**	**1,144.9**	$	990.5
Costs and expenses				
Manufacturing and product costs		**862.1**		804.5
Freight and other distribution costs		**137.7**		136.2
Amortization		**87.3**		82.2
Selling and administration costs		**28.3**		23.7
Asset impairment (Note 14)		**95.0**		-
		1,210.4		1,046.6
Operating loss		**(65.5)**		(56.1)
Finance expense, net (Note 13)		**(5.0)**		(5.2)
Other income, net (Note 15)		**9.5**		30.7
Net loss before income taxes		**(61.0)**		(30.6)
Income tax recovery (Note 16)		**16.6**		8.2
Net loss	**$**	**(44.4)**	$	(22.4)
Net loss per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 12)	**$**	**(0.68)**	$	(0.34)

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

Canfor Pulp Products Inc.
Consolidated Statements of Other Comprehensive Income

(millions of Canadian dollars)		Years ended December 31, 2021		2020
Net loss	**$**	**(44.4)**	$	(22.4)
Other comprehensive income				
Items that will not be reclassified subsequently to net loss:				
Defined benefit plan actuarial gains, net (Note 10)		**9.4**		1.0
Income tax expense on defined benefit plan actuarial gains, net (Note 16)		**(2.5)**		(0.3)
Other comprehensive income, net of tax		**6.9**		0.7
Total comprehensive loss	**$**	**(37.5)**	$	(21.7)

Consolidated Statements of Changes in Equity

(millions of Canadian dollars)		Years ended December 31, 2021		2020
Share capital				
Balance at beginning and end of year	**$**	**480.8**	$	480.8
Retained earnings				
Balance at beginning of year	**$**	**51.7**	$	77.5
Net loss		**(44.4)**		(22.4)
Defined benefit plan actuarial gains, net of tax		**6.9**		0.7
Dividends declared		**-**		(4.1)
Balance at end of year	**$**	**14.2**	$	51.7
Total equity	**$**	**495.0**	$	532.5

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

Canfor Pulp Products Inc.
Consolidated Statements of Cash Flows

(millions of Canadian dollars)	Years ended December 31, 2021	2020
Cash generated from (used in):		
Operating activities		
Net loss	**$ (44.4)**	$ (22.4)
Items not affecting cash:		
Amortization	**87.3**	82.2
Income tax recovery	**(16.6)**	(8.2)
Employee future benefits expense	**3.6**	4.0
Finance expense, net	**5.0**	5.2
Asset impairment (Note 14)	**95.0**	-
Other, net	**0.4**	(2.3)
Defined benefit plan contributions, net	**(3.5)**	(3.3)
Income taxes received, net	**26.0**	29.0
	152.8	84.2
Net change in non-cash working capital (Note 17)	**(3.9)**	11.8
	148.9	96.0
Financing activities		
Payments of lease obligations (Note 6(b))	**(1.1)**	(0.9)
Operating loan repayment	**-**	(14.0)
Finance expenses paid	**(3.2)**	(3.4)
Dividends paid	**-**	(4.1)
	(4.3)	(22.4)
Investing activities		
Additions to property, plant and equipment and intangible assets, net (Note 5)	**(78.7)**	(73.3)
Other, net	**0.6**	0.5
	(78.1)	(72.8)
Increase in cash and cash equivalents*	**66.5**	0.8
Cash and cash equivalents at beginning of year*	**6.8**	6.0
Cash and cash equivalents at end of year*	**$ 73.3**	$ 6.8

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

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

1. Reporting Entity

Canfor Pulp Products Inc. ("CPPI") is a company incorporated and domiciled in Canada and listed on The Toronto Stock Exchange. The address of the Company's registered office is 100-1700 West 75th Avenue, Vancouver, British Columbia, Canada, V6P 6G2. The consolidated financial statements of the Company as at and for the year ended December 31, 2021 comprise the Company and its subsidiaries (hereinafter referred to as "CPPI" or "the Company"). The Company's operations consist of two Northern Bleached Softwood Kraft ("NBSK") pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia, a Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill located in Taylor, British Columbia and a marketing group based in Vancouver, British Columbia.

At December 31, 2021, and March 1, 2022, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI, unchanged from December 31, 2020.

2. Basis of Preparation

Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 1, 2022.

Basis of measurement

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

Use of estimates and judgments

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

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

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

- Note 4 – Inventories;
- Note 5 – Property, Plant and Equipment and Intangible Assets;
- Note 6 – Leases;
- Note 10 – Employee Future Benefits;
- Note 11 – Asset Retirement Obligations;
- Note 14 – Asset Impairment; and
- Note 16 – Income Taxes.

3. Significant Accounting Policies

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

Basis of consolidation

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

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

Cash and cash equivalents

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

Financial instruments

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

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

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

Classification and measurement of financial assets

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

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

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

Classification and measurement of financial liabilities

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

Impairment

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

Inventories

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

Leases

Lease definition

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

Measurement of right-of-use assets and lease obligations

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

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

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

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

Recognition exemptions

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

Property, plant and equipment

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

Cost includes expenditures which are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs (as applicable), and any other costs directly

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 include cash held through major Canadian and international financial institutions as well as temporary investments that are readily convertible into known amounts of cash within three months or less from the date of acquisition. The cash and cash equivalents balance at December 31, 2021 is $73.3 million (December 31, 2020 – $6.8 million).

CPPI utilizes credit insurance to mitigate the risk associated with some of its trade accounts receivable. As at December 31, 2021, approximately 89% (December 31, 2020 – 72%) of the outstanding trade accounts receivable are covered by credit insurance. In addition, CPPI requires letters of credit on certain export trade accounts receivable and regularly discounts these letters of credit without recourse. CPPI recognizes the sale of the letters of credit on the settlement date, and accordingly reduces the related trade accounts receivable balance. CPPI's trade accounts receivable balance at December 31, 2021 is $67.7 million, before a loss allowance of $1.0 million (December 31, 2020 – $65.3 million before a loss allowance of $1.0 million). At December 31, 2021, approximately 100% (December 31, 2020 – 99%) of the trade accounts receivable balance is within CPPI's established credit terms.

Liquidity risk:

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

At December 31, 2021, CPPI had cash and cash equivalents of $73.3 million (December 31, 2020 – $6.8 million), with $97.1 million (December 31, 2020 - $97.1 million) available and undrawn on its operating loan facility. As a result, at December 31, 2021, the Company had available liquidity of $170.4 million (December 31, 2020 - $103.9 million), accounts payable and accrued liabilities of $147.0 million (December 31, 2020 – $161.6 million), and term debt of $50.0 million (December 31, 2020 – $50.0 million).

Market risk:

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

(i) Interest rate risk:

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

(ii) Currency risk:

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

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax loss (gain) of approximately $0.5 million in relation to working capital balances denominated in US-dollars at year end (including cash, accounts receivable and accounts payable). A portion of the currency risk associated with US-dollar denominated sales is naturally offset by US-dollar denominated expenses. A portion of the remaining exposure is sometimes covered by foreign exchange collar contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US-dollars.

(iii) Commodity price risk:

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

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

(iv) Energy price risk:

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

At December 31, 2021 and December 31, 2020, the Company had no fixed interest rate swaps, foreign exchange contracts, pulp futures, energy fixed swaps or option contracts outstanding.

Capital management

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

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

(millions of Canadian dollars)		**As at December 31, 2021**		As at December 31, 2020
Total debt (including operating loan)	**$**	**50.0**	$	50.0
Less: Cash and cash equivalents		**(73.3)**		(6.8)
Net debt (cash)	**$**	**(23.3)**	$	43.2
Total equity		**495.0**		532.5
	$	**471.7**	$	575.7

The Company manages its capital structure through rigorous planning, budgeting and forecasting processes, and ongoing management of operations, investments and capital expenditures. In 2021, to meet CPPI's operating, growth and return on invested capital objectives, the Company's management of capital was comprised primarily of investment in the Company's operations. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Coronavirus Outbreak

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. During the year ended December 31, 2021, there have been no significant adverse impacts of COVID-19 on the Company. However, Management continues to closely monitor its effects on the Company's operating plan, liquidity, cash flows, and the valuation of its long-lived assets.

22. Financial Instruments

CPPI's cash and cash equivalents, trade and other accounts receivable, operating loan, term debt and accounts payable and accrued liabilities are classified as measured at amortized cost in accordance with IFRS 9. The carrying amounts of these instruments, excluding term debt, approximate fair value at December 31, 2021.

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

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability, directly or indirectly;
Level 3 – Inputs that are not based on observable market data.

At times, the Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, energy costs and interest rates. As at December 31, 2021 and December 31, 2020, the Company had no derivative financial instruments outstanding.