2019

QUARTER FOUR

INTERIM REPORT

FOR THE THREE MONTHS ENDED DEC. 31, 2019

CANFOR PULP PRODUCTS INC.

To Our Shareholders

Canfor Pulp Products Inc. ("CPPI") reported 2019 and fourth quarter 2019 results and its quarterly dividend:

Overview

- 2019 reported operating loss of $31 million; net loss of $31 million, or $0.47 per share
- Fourth quarter of 2019 reported operating loss of $24 million; net loss of $20 million, or $0.30 per share

Financial Results

The following table summarizes selected financial information for CPPI for the comparative periods:

(millions of Canadian dollars, except per share amounts)	**Q4 2019**	Q3 2019	**YTD 2019**	Q4 2018	YTD 2018
Sales	**$ 247.5**	$ 216.9	**$ 1,087.9**	$ 289.7	$ 1,374.3
Reported operating income (loss) before amortization	**$ 0.1**	$ (20.3)	**$ 61.9**	$ 36.1	$ 326.2
Reported operating income (loss)	**$ (23.5)**	$ (44.0)	**$ (31.0)**	$ 15.6	$ 246.6
Adjusted operating income (loss) before amortization[1]	**$ (2.9)**	$ (20.3)	**$ 72.6**	$ 36.1	$ 326.2
Adjusted operating income (loss)[1]	**$ (26.5)**	$ (44.0)	**$ (20.3)**	$ 15.6	$ 246.6
Net income (loss)	**$ (19.5)**	$ (32.4)	**$ (30.5)**	$ 14.2	$ 184.4
Net income (loss) per share, basic and diluted	**$ (0.30)**	$ (0.50)	**$ (0.47)**	$ 0.21	$ 2.83

Results for 2019 include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.
[1] Adjusted for an inventory write-down recovery ($3.0 million net recovery in Q4 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.

For the fourth quarter of 2019, the Company reported an operating loss of $23.5 million, compared to an operating loss of $44.0 million reported for the third quarter of 2019. 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.

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, contributing to a slight increase in global inventory levels by year end to 37 days of supply. 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. The Company's NBSK pulp unit sales realizations were modestly lower than the prior quarter principally reflecting lower prices to North America, where list prices (before discounts) declined US$55 per tonne, or 5%, quarter-over-quarter. BCTMP unit sales realizations showed a modest increase from the previous quarter as BCTMP prices edged upwards in the latter part of the quarter.

Energy revenues increased quarter-over-quarter, principally reflecting seasonally higher energy prices combined with an increase in operating days in the current quarter, due to the downtime taken in the summer months.

Pulp production was 286,000 tonnes for the fourth quarter of 2019, up 112,000 tonnes, or 64%, from the previous quarter, 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 Prince George NBSK pulp mill ("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.

The Company's pulp shipments totaled 267,000 tonnes, up 54,000 tonnes, or 25%, from the previous quarter, principally reflecting the aforementioned increase in pulp production quarter-over-quarter, offset in part by a rebuild of pulp inventories to more normal levels in the current quarter after a material drawdown in the previous quarter.

Pulp unit manufacturing costs were down significantly from the prior quarter, primarily reflecting increased production offset, in part, by seasonally higher energy costs. Fibre costs were slightly lower than the previous period, 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.

Operating income in the Company's paper segment was $5.0 million, up $1.1 million from the previous quarter, largely as a result of lower slush pulp costs (linked to falling Canadian dollar NBSK pulp market prices) and paper unit manufacturing costs, which more than offset the impact of declining paper unit sales realizations tied to softness in most global kraft paper 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. 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. 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.

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.

Refer to the Company's annual Management's Discussion and Analysis for further discussion on the Company's results for the fourth quarter of 2019 on page 17.

Conrad A. Pinette	**Don B. Kayne**
Chairman	**Chief Executive Officer**

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at December 31, 2019**		As at December 31, 2018
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**6.0**	$	6.9
Accounts receivable - Trade		**80.5**		107.6
- Other		**6.6**		11.4
Income taxes receivable		**29.7**		5.4
Inventories (Note 2)		**193.7**		207.1
Prepaid expenses and other		**14.8**		11.9
Total current assets		**331.3**		350.3
Property, plant and equipment and intangible assets		**580.8**		578.2
Right-of-use assets (Note 3(a))		**2.5**		-
Other long-term assets		**6.2**		3.5
Total assets	**$**	**920.8**	$	932.0
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**142.2**	$	182.0
Operating loan (Note 4(a))		**14.0**		-
Current portion of lease obligations (Note 3(b))		**1.0**		-
Total current liabilities		**157.2**		182.0
Long-term debt (Note 4(b))		**50.0**		-
Lease obligations (Note 3(b))		**1.9**		-
Retirement benefit obligations (Note 5)		**68.6**		80.0
Other long-term provisions		**7.1**		6.6
Deferred income taxes, net		**77.7**		66.8
Total liabilities	**$**	**362.5**	$	335.4
EQUITY				
Share capital	**$**	**480.8**	$	480.9
Retained earnings		**77.5**		115.7
Total equity	**$**	**558.3**	$	596.6
Total liabilities and equity	**$**	**920.8**	$	932.0

Subsequent Event (Note 10)

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

APPROVED BY THE BOARD

S.E. Bracken-Horrocks

Director, S.E. Bracken-Horrocks

Director, C.A.Pinette

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

(millions of Canadian dollars, except per share data, unaudited)	3 months ended December 31, **2019**	2018	12 months ended December 31, **2019**	2018
Sales	**$ 247.5**	$ 289.7	**$ 1,087.9**	$ 1,374.3
Costs and expenses				
Manufacturing and product costs	**206.3**	212.8	**854.7**	870.9
Freight and other distribution costs	**36.2**	32.5	**145.5**	145.4
Amortization	**23.6**	20.5	**92.9**	79.6
Selling and administration costs	**4.9**	8.3	**25.8**	31.8
	271.0	274.1	**1,118.9**	1,127.7
Operating income (loss)	**(23.5)**	15.6	**(31.0)**	246.6
Finance expense, net	**(1.6)**	(0.9)	**(6.6)**	(4.2)
Other income (expense), net	**(1.5)**	4.8	**(4.0)**	8.7
Net income (loss) before income taxes	**(26.6)**	19.5	**(41.6)**	251.1
Income tax recovery (expense) (Note 6)	**7.1**	(5.3)	**11.1**	(66.7)
Net income (loss)	**$ (19.5)**	$ 14.2	**$ (30.5)**	$ 184.4
Net income (loss) per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 7)	**$ (0.30)**	$ 0.21	**$ (0.47)**	$ 2.83

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Other Comprehensive Income

(millions of Canadian dollars, unaudited)	3 months ended December 31, **2019**	2018	12 months ended December 31, **2019**	2018
Net income (loss)	**$ (19.5)**	$ 14.2	**$ (30.5)**	$ 184.4
Other comprehensive income				
Items that will not be recycled through net income (loss):				
Defined benefit plan actuarial gains (Note 5)	**0.1**	1.5	**12.2**	5.5
Income tax expense on defined benefit plan actuarial gains (Note 6)	**-**	(0.4)	**(3.3)**	(1.5)
Other comprehensive income, net of tax	**0.1**	1.1	**8.9**	4.0
Total comprehensive income (loss)	**$ (19.4)**	$ 15.3	**$ (21.6)**	$ 188.4

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended December 31, **2019**	2018	12 months ended December 31, **2019**	2018
Share capital				
Balance at beginning of period	**$ 480.8**	$ 480.9	**$ 480.9**	$ 480.9
Share purchases (Note 7)	**-**	-	**(0.1)**	-
Balance at end of period	**$ 480.8**	$ 480.9	**$ 480.8**	$ 480.9
Retained earnings				
Balance at beginning of period	**$ 101.0**	$ 251.3	**$ 115.7**	$ 90.5
Net income (loss)	**(19.5)**	14.2	**(30.5)**	184.4
Defined benefit plan actuarial gains, net of tax	**0.1**	1.1	**8.9**	4.0
Dividends declared	**(4.1)**	(150.9)	**(16.4)**	(163.2)
Impact of change in accounting policy (Notes 1 and 3)	**-**	-	**(0.1)**	-
Share purchases (Note 7)	**-**	-	**(0.1)**	-
Balance at end of period	**$ 77.5**	$ 115.7	**$ 77.5**	$ 115.7
Total equity	**$ 558.3**	$ 596.6	**$ 558.3**	$ 596.6

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended December 31, 2019	3 months ended December 31, 2018	12 months ended December 31, 2019	12 months ended December 31, 2018
Cash generated from (used in):				
Operating activities				
Net income (loss)	**$ (19.5)**	$ 14.2	**$ (30.5)**	$ 184.4
Items not affecting cash:				
Amortization	**23.6**	20.5	**92.9**	79.6
Income tax expense (recovery)	**(7.1)**	5.3	**(11.1)**	66.7
Employee future benefits expense	**0.7**	0.7	**3.5**	4.0
Finance expense, net	**1.6**	0.9	**6.6**	4.2
Other, net	**1.2**	0.8	**0.3**	(1.1)
Defined benefit plan contributions, net	**(1.4)**	(1.6)	**(5.4)**	(6.6)
Income taxes paid, net	**(0.1)**	(36.3)	**(4.6)**	(90.4)
	(1.0)	4.5	**51.7**	240.8
Net change in non-cash working capital (Note 8)	**6.2**	(9.4)	**7.7**	(25.6)
	5.2	(4.9)	**59.4**	215.2
Financing activities				
Payment of lease obligations (Note 3(b))	**(0.3)**	-	**(1.1)**	-
Increase in operating loan (Note 4(a))	**14.0**	-	**14.0**	-
Proceeds from long-term debt (Note 4(b))	**-**	-	**50.0**	-
Finance expenses paid	**(1.1)**	(0.8)	**(3.8)**	(3.3)
Dividends paid	**(4.1)**	(150.9)	**(16.4)**	(163.2)
Share purchases (Note 7)	**-**	-	**(0.2)**	(0.1)
	8.5	(151.7)	**42.5**	(166.6)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(27.1)**	(42.5)	**(103.0)**	(120.5)
Other, net	**-**	0.6	**0.2**	2.1
	(27.1)	(41.9)	**(102.8)**	(118.4)
Decrease in cash and cash equivalents*	**(13.4)**	(198.5)	**(0.9)**	(69.8)
Cash and cash equivalents at beginning of period*	**19.4**	205.4	**6.9**	76.7
Cash and cash equivalents at end of period*	**$ 6.0**	$ 6.9	**$ 6.0**	$ 6.9

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

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

1. Basis of Preparation

These condensed consolidated financial statements (the "financial statements") include the accounts of Canfor Pulp Products Inc. ("CPPI") and its subsidiary entities, hereinafter referred to as "CPPI" or "the Company". At December 31, 2019 and February 20, 2020, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI.

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for interim or annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2019, available at www.canfor.com or www.sedar.com.

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

These financial statements were authorized for issue by the Company's Board of Directors on February 20, 2020.

Change in Significant Accounting Policy

Effective January 1, 2019, the Company has adopted IFRS 16 *Leases* ("IFRS 16"), which supersedes IAS 17 *Leases* ("IAS 17") and related interpretations. Under IAS 17, leases were previously classified as either operating or financing for lessees based on an assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. As the Company's leases were previously classified as operating, straight-line operating lease expense was recognized over the lease term in the comparative periods.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees, with a right-of-use asset ("ROU asset") representing the Company's right to use the underlying asset, and a lease obligation representing its obligation to make lease payments. Amortization expense for ROU assets and interest expense for lease obligations replaces the straight-line operating lease expense recognized under IAS 17.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Short-term and low-value recognition exemptions were applied, as well as certain practical expedients allowing for the use of hindsight to assess the lease term for contracts with extension options, the exclusion of initial direct costs from measurement of the ROU asset and the exclusion of leases with a term of less than one year remaining at the transition date.

The impact of transition is outlined under Note 3, with changes in accounting policies outlined below.

Policy applicable from January 1, 2019

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 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 (loss).

2. Inventories

(millions of Canadian dollars, unaudited)		**As at December 31, 2019**		As at December 31, 2018
Pulp	**$**	**72.8**	$	83.2
Paper		**29.7**		22.2
Wood chips and logs		**35.9**		48.3
Materials and supplies		**55.3**		53.4
	$	**193.7**	$	207.1

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended December 31, 2019, a $3.0 million inventory write-down recovery was recognized (twelve months ended December 31, 2019 – net write-down expense of $10.7 million), resulting in an inventory provision for finished pulp and raw materials of $10.7 million at December 31, 2019 (December 31, 2018 – nil).

3. Leases

The Company's leased assets include land, buildings, vehicles, machinery and equipment. Effective January 1, 2019, the Company adopted IFRS 16 as outlined in Note 1, recognizing $3.3 million of ROU assets and $3.4 million of lease obligations, with the difference of $0.1 million recognized in retained earnings.

The following table reconciles the Company's lease commitments disclosed in the consolidated financial statements as at and for the year ended December 31, 2018, to the lease obligations recognized on initial application of IFRS 16:

(millions of Canadian dollars, unaudited)		
Operating lease commitments at December 31, 2018	$	1.7
Recognition exemption for short-term and low-value leases		(0.1)
Discounted using the incremental borrowing rate at January 1, 2019		(0.2)
Lease remeasurements and other transitional adjustments		2.0
Lease obligations recognized at January 1, 2019	$	3.4

Lease obligations were measured at the present value of remaining lease payments at the transition date, discounted at the Company's incremental borrowing rate. The weighted average incremental borrowing rate applied at January 1, 2019 was 4.2%.

(a) Right-of-Use Assets

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

Amortization expense on right-of-use assets for the three and twelve months ended December 31, 2019, was $0.3 million and $1.3 million, respectively.

(b) Lease Obligations

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

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

Discounted lease obligations recognized on the Company's consolidated balance sheet are as follows:

(millions of Canadian dollars, unaudited)		**As at December 31, 2019**
Current	**$**	**1.0**
Non-Current		**1.9**
Total discounted lease obligations	**$**	**2.9**

Interest expense on lease obligations for the three months ended December 31, 2019 was nominal. For the twelve months ended December 31, 2019, interest expense of $0.1 million was recognized. Interest expense on lease obligations is included in finance expense, net.

Operating lease expense relating to short-term and low-value leases not included in the measurement of lease obligations for the three months ended December 31, 2019 was nominal. For the twelve months ended December 31, 2019 an expense of $0.6 million was recognized.

For the three months ended December 31, 2019, total cash outflows for leases was $0.3 million, including a nominal outflow for short-term and low-value leases. For the twelve months ended December 31, 2019, total cash outflows for leases was $1.7 million, including $0.6 million for short-term and low-value leases.

4. Operating Loan and Long-Term Debt

(a) Operating Loan

(millions of Canadian dollars, unaudited)		**As at December 31, 2019**		As at December 31, 2018
Operating loan facility	**$**	**110.0**	$	110.0
Letters of credit		**(13.2)**		(11.1)
Operating loan facility drawn		**(14.0)**		-
Total available operating loan facility	**$**	**82.8**	$	98.9

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

The facility has certain financial covenants including a covenant based on maximum debt to total capitalization of the Company. At December 31, 2019, the Company was fully in compliance with all covenants relating to its operating loan.

(b) Long-Term Debt

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

As at December 31, 2019, the Company was fully in compliance with all covenants relating to its long-term debt.

5. Employee Future Benefits

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

Medical Services Plan Changes

On May 15, 2019, *Bill 20 – Medicare Protection Amendment Act, 2019* ("Bill 20"), received Royal Assent. Bill 20 eliminated Medical Services Plan ("MSP") premiums effective January 1, 2020. This change was recognized in actuarial financial assumptions in the second quarter of 2019 and resulted in an $18.9 million pre-tax reduction of the non-pension post-retirement benefit obligation and a corresponding gain recognized through other comprehensive income. The 50% reduction in MSP in the second quarter of 2019, when combined with the initial 50% reduction recognized in the fourth quarter of 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.

Significant assumptions

The actuarial assumptions used in measuring CPPI's benefit plan provisions and benefit costs were 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

6. Income Taxes

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

(millions of Canadian dollars, unaudited)	3 months ended December 31, 2019	3 months ended December 31, 2018	12 months ended December 31, 2019	12 months ended December 31, 2018
Current	**$ 8.7**	$ (0.1)	**$ 18.7**	$ (69.0)
Deferred	**(1.6)**	(5.2)	**(7.6)**	2.3
Income tax recovery (expense)	**$ 7.1**	$ (5.3)	**$ 11.1**	$ (66.7)

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

(millions of Canadian dollars, unaudited)	3 months ended December 31, 2019	3 months ended December 31, 2018	12 months ended December 31, 2019	12 months ended December 31, 2018
Income tax recovery (expense) at statutory rate – 27% (2018 – 27%)	**$ 7.1**	$ (5.3)	**$ 11.2**	$ (67.8)
Add (deduct):				
Entities with different income tax rates and other tax adjustments	**-**	-	**-**	0.2
Permanent difference from capital gains and losses and other non-deductible items	**-**	-	**(0.1)**	0.9
Income tax recovery (expense)	**$ 7.1**	$ (5.3)	**$ 11.1**	$ (66.7)

In addition, a nominal tax expense was recorded in relation to actuarial gains on the Company's defined benefit plan which was recorded in other comprehensive income for the three months ended December 31, 2019 (three months ended December 31, 2018 – expense of $0.4 million). For the twelve months ended December 31, 2019, a tax expense of $3.3 million was recorded in other comprehensive income relating to actuarial gains (twelve months ended December 31, 2018 – expense of $1.5 million).

7. Earnings per Share and Normal Course Issuer Bid

Basic net income (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period.

	3 months ended December 31, 2019	3 months ended December 31, 2018	12 months ended December 31, 2019	12 months ended December 31, 2018
Weighted average number of common shares	**65,233,559**	65,250,759	**65,243,435**	65,250,763

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.

During the fourth quarter of 2019 the Company did not purchase any common shares. For the twelve months ended December 31, 2019, the Company purchased 17,200 common shares at an average price of $10.67.

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

8. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended December 31, 2019	3 months ended December 31, 2018	12 months ended December 31, 2019	12 months ended December 31, 2018
Accounts receivable	**$ 1.0**	$ 7.9	**$ 28.1**	$ (2.4)
Inventories	**(7.0)**	(15.5)	**13.4**	(41.6)
Prepaid expenses and other	**3.9**	2.0	**(2.9)**	(2.9)
Accounts payable and accrued liabilities	**8.3**	(3.8)	**(30.9)**	21.3
Net change in non-cash working capital	**$ 6.2**	$ (9.4)	**$ 7.7**	$ (25.6)

9. Segment Information

The Company has two reportable segments, pulp and paper, which operate as separate business units and represent separate product lines. Sales between the pulp and paper segments are accounted for at prices that approximate fair value. These include sales of slush pulp from the pulp segment to the paper segment. Information regarding the operations of each reportable segment is included in the following table:

(millions of Canadian dollars, unaudited)	Pulp	Paper	Unallocated	Elimination Adjustment	Consolidated
3 months ended December 31, 2019					
Sales from contracts with customers	**$ 213.1**	**$ 34.2**	**$ 0.2**	**$ -**	**$ 247.5**
Sales to other segments	**15.8**	**-**	**-**	**(15.8)**	**-**
Operating income (loss)	**(26.8)**	**5.0**	**(1.7)**	**-**	**(23.5)**
Amortization	**22.8**	**0.8**	**-**	**-**	**23.6**
Capital expenditures[1]	**25.9**	**0.9**	**0.3**	**-**	**27.1**
3 months ended December 31, 2018					
Sales from contracts with customers	$ 243.5	$ 46.1	$ 0.1	$ -	$ 289.7
Sales to other segments	32.1	-	-	(32.1)	-
Operating income (loss)	15.2	3.5	(3.1)	-	15.6
Amortization	19.5	0.9	0.1	-	20.5
Capital expenditures[1]	40.8	0.4	1.3	-	42.5
12 months ended December 31, 2019					
Sales from contracts with customers	**$ 918.9**	**$ 168.4**	**$ 0.6**	**$ -**	**$ 1,087.9**
Sales to other segments	**88.9**	**-**	**-**	**(88.9)**	**-**
Operating income (loss)	**(43.9)**	**22.9**	**(10.0)**	**-**	**(31.0)**
Amortization	**89.3**	**3.5**	**0.1**	**-**	**92.9**
Capital expenditures[1]	**96.4**	**5.1**	**1.5**	**-**	**103.0**
Identifiable assets	**809.1**	**66.3**	**45.4**	**-**	**920.8**
12 months ended December 31, 2018					
Sales from contracts with customers	$ 1,192.9	$ 180.9	$ 0.5	$ -	$ 1,374.3
Sales to other segments	119.7	-	-	(119.7)	-
Operating income (loss)	248.9	11.0	(13.3)	-	246.6
Amortization	75.3	4.2	0.1	-	79.6
Capital expenditures[1]	113.3	3.7	3.5	-	120.5
Identifiable assets	841.7	66.1	24.2	-	932.0

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

Geographic information

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

(millions of Canadian dollars, unaudited)	3 months ended December 31, **2019**	3 months ended December 31, 2018	12 months ended December 31, **2019**	12 months ended December 31, 2018
Sales by location of customer				
Canada	**$ 20.3**	$ 21.5	**$ 82.5**	$ 81.0
Asia	**141.7**	157.2	**585.9**	840.9
United States	**71.4**	80.7	**317.6**	323.7
Europe	**8.0**	12.7	**46.0**	60.3
Other	**6.1**	17.6	**55.9**	68.4
	$ 247.5	$ 289.7	**$ 1,087.9**	$ 1,374.3

10. Subsequent Event

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.