

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management’s discussion and analysis is intended to help the reader understand Resolute Forest Products, our results of operations, cash flows and financial condition. The discussion is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes (or, the “*Consolidated Financial Statements*”) contained in Item 8, “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K (or, “*Form 10-K*”).

When we refer to “Resolute Forest Products,” “Resolute,” “we,” “our,” “us,” or the “Company,” we mean Resolute Forest Products Inc. with its subsidiaries, either individually or collectively, unless otherwise indicated.

OVERVIEW

Resolute Forest Products is a global leader in the forest products industry with a diverse range of products, including market pulp, tissue, wood products, and paper, which are marketed in over 50 countries. The Company owns or operates some 40 facilities, as well as power generation assets, in the U.S. and Canada. We produce lumber in the U.S. and Canada, and we are the largest producer of wood products east of the Canadian Rockies, the largest producer of uncoated mechanical papers in North America, and a competitive pulp producer in North America. We are also a leading global producer of newsprint and an emerging tissue producer. Resolute has third-party certified 100% of its managed woodlands to internationally recognized sustainable forest management standards.

We report our activities in four business segments: market pulp, tissue, wood products, and paper. We believe an integrated approach across these segments maximizes value creation for our Company and stakeholders.

We are guided by our vision and values, focusing on safety, sustainability, profitability, accountability, and teamwork. We believe we can be distinguished by the following competitive strengths:

- *Competitive cost structure combined with diversified and integrated asset base*
 - large-scale and cost-effective operations, including significant internal energy production from cogeneration and hydroelectric facilities, which support our value proposition;
 - control over fiber transformation chain from standing timber to end-product for the majority of our offering;
 - nearly 100% of our products sourced from high-quality virgin fiber;
 - harvesting rights for the majority of fiber needs in Canada; and
 - sophisticated logistics capabilities to meet demanding customer expectations.
- *Solid balance sheet*
 - favorable pricing and flexibility under borrowing agreements together with our liquidity levels support ability to weather challenging market cycles and to execute our transformation strategy;
 - significant tax assets to defer cash income taxes and provide synergies to execute this strategy; and
 - customers benefit from a financially stable and reliable business partner in a challenging industry.
- *Seasoned management team*
 - deep industry expertise, with influential leaders in forestry, operations, environmental risk management and public policy;
 - culture of accountability, encouraging transparency and straightforwardness; and
 - core identity tied to renewable resources we harvest in a truly sustainable manner.

Our Business

Products

For information on our products, see Part I, Item 1, “Business – Products” of this Form 10-K.

Strategy and highlights

Our corporate strategy is focused on continuing to transform the Company away from mature product markets and products in structurally declining markets toward a more profitable and sustainable organization over the long run, founded on a competitive portfolio of manufacturing assets and a solid presence in long-term growth markets. Our strategy is to drive value creation by growing in pulp and wood products, integrating our pulp into value-added quality tissue, investing in product innovation, and maximizing cash generation from our paper assets, while maintaining a disciplined approach to capital allocation.

Growing in pulp and wood products

Market pulp and wood products are core segments for the Company, and we believe in their long-term, sustained growth potential. We are confident in our ability to generate attractive returns for shareholders as operators of these assets. Our strategy is to take an opportunistic approach to these strategic initiatives, such as:

- spending to improve productivity and/or lower costs;
- investing selectively in organic expansions; and
- pursuing opportunistic strategic acquisitions.

For example, in 2020, we acquired three sawmills in the U.S. South, with combined production capacity of 550 million board feet once ramped-up, giving us immediate scale in an attractive region and providing an opportunity to create value by maintaining appropriate working capital and by deploying our operational expertise in sawmilling, with a focus on reliability, productivity and safety.

Integrating our pulp into value-added quality tissue

We entered the tissue market in 2015 with the construction of a greenfield tissue facility at our Calhoun (Tennessee) site and the acquisition of two tissue mills and a recovered paper facility in Florida. The purpose of our diversification into tissue is to add value with the integration of our market pulp, particularly as printing and writing demand for pulp continues to decline. We also believe that the tissue business will provide a more stable source of revenue and profitability.

Our tissue operations are almost entirely supplied from our pulp mills, creating synergies and minimizing risks associated with cyclical market pulp pricing. For our Calhoun tissue facility, pulp is transferred directly as slush pulp into the tissue operation, reducing process, energy, handling and logistics costs. Equipped with three modern converting lines sized specifically for the tissue machine, our Calhoun tissue facility mostly sells converted products that target the fast growing premium private-label markets in the U.S.

In December 2020, we completed the acquisition of a tissue converting facility located in Hagerstown, Maryland, with three bath tissue and towel converting lines. The Hagerstown assets will improve converting capacity, extend the Company's product offering and expand its territory in the attractive Northeast market.

Investing in product innovation

Fiber from trees is renewable, reusable and fossil-free, and we believe that it can serve as a core pillar in the ongoing shift away from fossil-based materials toward renewable alternatives. With our large-scale access to high-quality fiber, our expertise in managing its value-transformation chain and our strategically-located manufacturing facilities, we believe in investing in our business to build a competitive forest products company for the future.

For example, today we manufacture wood pellets used in renewable energy production from sawmill byproducts and, in partnership with a leading industry research organization, we recently launched an innovative pilot bio-refinery plant to produce lignin and cellulosic sugars for uses such as wood adhesives, animal feed and composites. In early 2020, we also announced the construction of a commercial plant to produce cellulose filaments, a new sustainable biomaterial derived from wood fiber that can be integrated into commercial and consumer products for many industries, including transportation, construction and energy, increasing the resistance and durability of those products. The cellulose filaments will be marketed with the help of Performance BioFilaments Inc., a joint venture established in 2014 by Resolute and Mercer International Inc., dedicated to the development of non-traditional applications for cellulose filaments.

We see certain megatrends around evolving customer preferences toward more renewable alternatives, urbanization and demographic changes that could open opportunities for our Company in value-added engineered wood products to capitalize on the growing role of wood in multi-family residential and commercial construction, as well as innovative fiber-derived products.

Maximizing cash generation from paper assets

Our high quality paper assets position us to compete effectively in the industry. This segment remains an important part of our business, generating cash to help finance our transformation strategy. In order to remain competitive in mature and declining markets that our paper operations face, we strive to consistently:

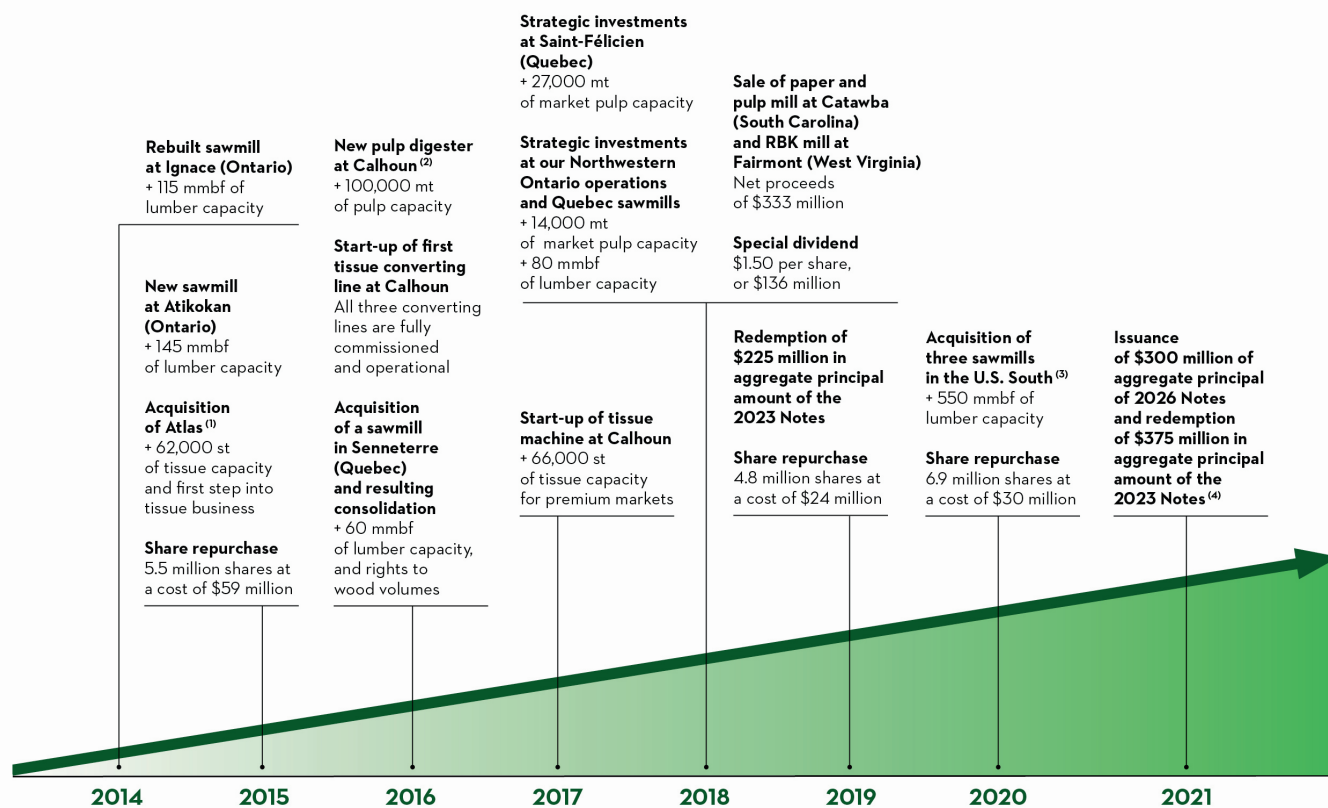
- maintain a stringent focus on controlling costs and optimizing our performance;
- manage production and inventory levels; and
- focus production at our most profitable and lower-cost facilities and machines.

Disciplined approach to capital allocation

As we operate in a capital-intensive and cyclical industry, we believe that the proper allocation of capital is a top priority, and that it should be done in a disciplined manner, with a view to maximize free cash flow through the business cycle and to generate attractive returns for our shareholders. Accordingly, we:

- spend our capital in a disciplined, strategic and focused manner, concentrating on our most competitive sites and the highest-return projects;
- explore value-creating opportunities for incremental organic growth projects, segment extensions, bolt-on acquisitions, position-repurposing activities, divestitures, investments, joint ventures, capital market transactions and other similar transactions in order to calibrate and maximize the efficiency of our allocation of capital and other resources and optimize the value of our business;
- seek to maintain solid financial liquidity that over time is sufficient to support the evolution of our transformation strategy;
- based on market conditions, seek to retire, repay or refinance our outstanding indebtedness with a view to reducing costs and enhancing our financial flexibility; and
- return excess capital over time to our shareholders through dividends and share repurchases.

Here is a summary of some of our key strategic initiatives since 2014:



- (1) With the acquisition of Atlas Paper Holdings, Inc. and its subsidiaries (or, “Atlas”), we gained an immediate position in the North American consumer tissue market and access to a customer base to accelerate the sale and distribution of our Calhoun tissue production.
- (2) Incremental pulp capacity from the pulp digester serves in part to supply slush pulp to our Calhoun tissue machine.
- (3) The acquisition of three sawmills in the U.S. South from Conifex Timber Inc., with combined production capacity of 550 million board feet, gives us immediate scale in an attractive region, with quality assets in a rich fiber basket, close to growing end-markets. The facilities produce construction-grade dimensional lumber and decking products from locally sourced southern yellow pine for distribution within the U.S.
- (4) Subsequent to year-end 2020, we issued \$300 million unsecured senior notes due in 2026 with a 4.875% coupon, the proceeds of which, together with cash on hand, were used to redeem the \$375 million aggregate principal amount of our 5.875% senior notes due in 2023.

Sustainable development and performance

Our sustainability strategy is based on a balanced approach to environmental, social and economic performance, designed to enhance our competitive position. It is supported by public commitments in a number of key performance areas, focusing primarily on:

- improving resource efficiency, which helps control wood fiber, chemical, and energy costs, three significant input costs in our industry;
- moving beyond regulatory compliance and environmental incident management to differentiate ourselves as an environmental supplier of choice;
- positioning Resolute as a competitive employer; and
- building solid relations in our operating communities.

The overall responsibility for our sustainability performance resides with our president and chief executive officer, while we rely on our corporate sustainability committee to support the delivery of our key commitments and to implement related plans.

As an industry leader, we are committed to maintaining effective sustainability oversight and management practices, and have moved beyond already rigorous regulatory compliance and environmental incident management to commit to transparency and annual sustainability reporting. The environmental, health and safety committee of the board of directors of the Company periodically reviews the Company's strategies, activities, policies and communications regarding sustainability and other related matters, and makes recommendations to the board.

Our recent key sustainability achievements include:

- Achieving world-class safety performance, close to the targets we set at the beginning of the year, even with the integration of our three new U.S. sawmills. The Company's Occupational Safety and Health Administration (OSHA) incident rate was 0.62 for the year, with a severity rate of 16.8. Safety is our first priority, and we strive for zero injuries.
- Achieving an 83.4% reduction in absolute greenhouse gas (or, "GHG") emissions (scope 1 and 2) compared to 2000 levels, and setting a new target to reduce absolute GHG emissions by 30% against 2015 levels by 2025.
- Sourcing three quarters of our energy from renewable sources, and producing one third of the energy we consume internally.
- Announcing the construction of a \$20 million commercial cellulose filament plant, slated for completion in 2022, at our Kénogami (Quebec) paper mill. Cellulose filaments, a sustainable biomaterial derived from wood fiber, are manufactured entirely from renewable sources, resulting in a low carbon footprint.
- Continuing implementation of a \$45 million strategic investment plan at our Saint-Félicien pulp mill to improve the operation, increase average daily production capacity, and reduce GHG emissions from the use of fossil fuels by 20%, or approximately 35,000 metric tons of CO₂ equivalents per year.
- Increasing the energy efficiency of our facilities and lowering GHG emissions, including an initiative at our Dolbeau paper mill to decrease the use of the auxiliary boiler fueled with bunker C oil, equivalent to a reduction of 1,600 metric tons of CO₂ equivalents per year.
- Deploying a carbon capture unit and ancillary equipment at our Saint-Félicien pulp mill to improve growth rates at Toundra Greenhouse, a state-of-the-art vegetable-growing complex in which we hold a 49% interest, and announcing its third expansion since opening in 2016: a \$39 million investment that will create 55 new jobs, in addition to consolidating Toundra Greenhouse's position as a major player in the province's greenhouse industry.
- Maintaining certification of 100% of Resolute-owned or managed woodlands to at least one internationally recognized forest management standard (Sustainable Forestry Initiative[®], or "SFI[®]", and Forest Stewardship Council[®], or "FSC[®]"). As a result, our commitments extend well beyond strict compliance with applicable forestry regulations, which in Quebec and Ontario are already among the most – if not the most – rigorous in the world.
- Maintaining internationally recognized chain of custody certifications at 100% of our certified manufacturing facilities (SFI, FSC, and Programme for the Endorsement of Forest Certification, or "PEFC[™]"), and completing multisite chain of custody certification for all of our tissue mills, including our Calhoun tissue operation.
- Deploying our Regional Supplier Registry web portal to support the development of local, regional and Indigenous business in our Quebec operating communities as part of our commitment to further integrate sustainability practices into our procurement process.
- Continuing to report climate change, water security and forests disclosures to CDP, as we have done since 2006. We received an "A-" for our forests disclosures – the highest score achieved in this category by any North American forest products company – placing us at the leadership level and reflecting environmental best practices. We maintained management level scores for our climate change ("B-") and water security ("B") disclosures, reflecting the actions we have taken to evaluate and manage our risks in these categories. Full disclosures and scores are available on CDP's website (www.cdp.net), though this information is not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that we file with or furnish to the U.S. Securities and Exchange Commission (or, the "SEC").
- Continuing to implement our proactive approach to environmental management by beating our class 1 and 2 environmental incident target, recording 13 incidents in 2020, and maintaining ISO 14001:2015 environmental management system certification at 100% of our certified operations.
- Making new environmental commitments to include our wood products facilities in the Company's GHG emissions inventory by 2022, develop scope 3 GHG emission commitments by working with suppliers and other stakeholders, and record fiber losses of no more than 40 kg per metric ton of production.

- Completing a consultative process of our internal and external stakeholders in order to assess, review and update our shared priorities, which inform our sustainability strategy and public commitments.
- Adopting a board-level diversity policy striving to maintain a minimum of 25% representation each of men and women, as well as an executive leadership-level diversity policy acknowledging diversity as a key factor in the Company's talent management strategy. Currently there are two women on the board representing 29% of its membership.
- Updating our Information Technology Security Policy, adopting a three-year continuous improvement strategy for managing data security and privacy, and making a commitment to review the strategy annually.
- Training 100% of all new employees on the Company's Code of Business Conduct, and committing to review it, as well as our Ethics Reporting Policy, on an annual basis.
- Ensuring 100% of our operations reported their community outreach activities, including active engagement of union officials, employees, mayors and other community leaders, Indigenous partners, small community business owners, customers, and representatives of governments at various levels.
- Maintaining long-term consultative and business relationships with close to 40 Indigenous communities and organizations.
- Achieving our annual commitment to making community and charitable contributions of more than \$1 million by contributing \$1.1 million toward various community organizations, as well as more than \$420,000 toward scholarships and research grants.
- In addition to maintaining information resources such as BorealForestFacts.com and The Resolute Blog, we maintained a social media presence with platforms such as Forum boréal and Boreal Forum. The information contained on or connected to BorealForestFacts.com , The Resolute Blog and the Forum boréal and Boreal Forum social media platforms is not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that we file with or furnish to the SEC.
- Other sustainability performance indicators and disclosures prepared in accordance with the Global Reporting Initiative's GRI Standards are available on our website (www.resolutefp.com/sustainability). We have reported publicly in accordance with GRI since 2010. Such sustainability disclosures on our website are not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that we file with or furnish to the SEC.

Our sustainability achievements have been recognized by independent organizations. In 2020, we received extensive regional, North American and global recognition for excellence and leadership in corporate social responsibility and sustainable development. Some of the more noteworthy awards include:

- The Environment + Energy Leader top project of the year award for our Thunder Bay thermomechanical pulp biorefinery (July 21, 2020);
- The Business Intelligence Group's BIG Award for Business for green company of the year in the enterprise/manufacturing category (November 10, 2020);
- The American Forest & Paper Association's leadership in sustainability award in the energy efficiency/greenhouse gas reduction (large company) category for the second consecutive year (November 13, 2020); and
- In partnership with FPIInnovations and Performance BioFilaments, a partnership award at the ADRIQ (Association pour le développement de la recherche et de l'innovation du Québec) Innovation Awards for our commercial plant specializing in the production of cellulose filaments at the Kénogami paper mill (November 19, 2020).

For a complete list of Resolute's public sustainability commitments, visit our corporate website at www.resolutefp.com/sustainability. The commitments on our website are not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that we file with or furnish to the SEC.

Power generation

We produce electricity at six cogeneration facilities and seven hydroelectric dams. The output is consumed internally or sold under contract to third parties. This allows us to reduce our costs by generating energy internally at a lower cost compared to open market purchases, and by producing revenue from external sales.

This table provides a breakdown of the output capacity (based on installed capacity and operating expectations in 2021) available for internal consumption at our existing production facilities:

INTERNAL CONSUMPTION	Type	Energy	
		Capacity (MW)	Consumption (MWh/Year)
Calhoun (Tennessee)	Cogeneration	64	337,000
Coosa Pines (Alabama)	Cogeneration	25	155,000
Hydro Saguenay (Quebec) (7 dams)	Hydroelectric	170	1,174,000
Thunder Bay (Ontario)	Cogeneration	25	192,000

We estimate that the approximate annualized cost savings to our operations attributable to internal consumption from our cogeneration assets and hydroelectric facilities is between \$40 million and \$45 million.

The table below shows the facilities where we currently produce electricity to sell externally as green power produced from renewable sources at favorable rates, almost all of which we buy back at lower rates for use in our operations:

EXTERNAL SALES	Type	Energy	
		Capacity (MW)	Annualized Sales (MWh/Year)
Dolbeau (Quebec)	Cogeneration	28	193,000
Gatineau (Quebec)	Cogeneration	15	106,000
Saint-Félicien (Quebec)	Cogeneration	43	290,000
Thunder Bay (Quebec)	Cogeneration	65	431,000

External sales generated from our cogeneration assets reduced cost of sales, excluding depreciation, amortization and distribution costs (or, "COS"), by \$38 million, \$36 million and \$37 million for the years ended December 31, 2020, 2019 and 2018, respectively.

2020 Overview

Impact of the COVID-19 pandemic

We have sustained operations across all of our business segments through the COVID-19 pandemic, but we had to take certain measures in the face of the dramatic reduction in economic activity, particularly for marketing-dependent products like newspapers, inserts, flyers and commercial paper. We continue to focus on key short-term priorities, including: operating under rigorous protocols around the health and safety of our employees, contractors and suppliers; reducing our paper production consistent with the dramatic decrease in economic activity affecting demand; maintaining disciplined liquidity management; monitoring customer credit risk; and controlling spending around selling, general and administrative (or, “SG&A”) expenses and capital expenditures. Specifically, as of December 31, 2020, we have reduced our operational footprint by temporarily idling paper machines representing in aggregate 28% of our run-rate capacity (equivalent to 48,000 metric tons per month). This decision led to workforce reductions and spending limitations or deferrals. We continue to monitor the market to adjust our capacity to market conditions.

Temporary idling of Amos and Baie-Comeau facilities

Due to the overall decrease in demand for newsprint, accelerated by the economic context surrounding the COVID-19 pandemic, the Amos (Quebec) and Baie-Comeau (Quebec) paper mills have been temporarily idled since April 2020. As a result, we reassessed the remaining useful lives of the fixed assets and recognized an accelerated depreciation charge of \$38 million and recognized additional provisions of \$17 million. These charges are recorded in “Closure costs, impairment and other related charges” in our Consolidated Statement of Operations for the year ended December 31, 2020. We also recognized inventory write-downs of \$25 million recorded in “Cost of sales, excluding depreciation, amortization and distribution costs” in our Consolidated Statement of Operations for the year ended December 31, 2020.

Business acquisition

On February 1, 2020, we acquired from Conifex Timber Inc. all of the equity securities and membership interests in certain of its subsidiaries, the business of which consists mainly in the operation of three sawmills and related assets in Cross City (Florida) and in Glenwood and El Dorado (Arkansas) (or, the “U.S. Sawmill Business”). The U.S. Sawmill Business acquired produces construction-grade dimensional lumber and decking products from locally-sourced southern yellow pine for distribution within the U.S. This acquisition diversified our lumber production, and increased our operating capacity in the U.S. South. The fair value of the consideration, paid in cash, for the acquired U.S. Sawmill Business was \$173 million. For more information, see Note 3, “Business Acquisition,” to our Consolidated Financial Statements.

Liquidity and capital resources

On November 4, 2020, our Canadian subsidiary, Resolute FP Canada Inc., entered into a secured delayed draw term loan facility (or, the “Loan Facility”) with Investissement Québec as lender, for up to C\$220 million (\$173 million, based on the exchange rate in effect on December 31, 2020), with an availability of C\$165 million (\$130 million) as at December 31, 2020, subject to certain conditions. As of December 31, 2020, the Loan Facility was undrawn.

On February 2, 2021, we completed the private offering (or, the “Offering”) of \$300 million aggregate principal amount of our 4.875% senior notes due 2026 (or, the “2026 Notes”) at an issue price of 100%. We used the net proceeds of the Offering, together with cash on hand, to redeem all of the outstanding \$375 million aggregate principal amount of our 5.875% senior notes due 2023 (or, the “2023 Notes”), at a price of 100% of the aggregate principal amount thereof, plus accrued and unpaid interest to, but not including, the redemption date. The redemption of the 2023 Senior Notes occurred on February 18, 2021.

See below under “Liquidity and Capital Resources – Capital Resources” for more information.

Share repurchase program

On March 2, 2020, our board of directors authorized a share repurchase program of up to 15% of our common stock, for an aggregate consideration of up to \$100 million. During the year ended December 31, 2020, we repurchased 6.9 million shares at a cost of \$30 million under this program.

2020 vs. 2019

Our operating income was \$99 million during the year, compared to \$17 million in 2019. Excluding special items, we generated operating income of \$169 million in 2020, compared to \$46 million in 2019. Special items are described below.

Our net income in 2020 was \$10 million, or \$0.12 per diluted share, compared to net loss of \$47 million, or \$0.51 per share, in 2019. Our net income for 2020, excluding special items, was \$56 million, or \$0.65 per diluted share, compared to net loss of \$46 million, or \$0.50 per share, in 2019.

Year Ended December 31, 2020			
<i>(In millions, except per share amounts)</i>			
	Operating Income	Net Income	EPS
GAAP, as reported	\$ 99	\$ 10	\$ 0.12
Adjustments for special items:			
Closure costs, impairment and other related charges	53	53	0.61
Inventory write-downs related to closures	25	25	0.29
Start-up costs	3	3	0.03
Net gain on disposition of assets	(11)	(11)	(0.13)
Other expense, net	—	4	0.05
Income tax effect of special items	—	(28)	(0.32)
Adjusted for special items ⁽¹⁾	\$ 169	\$ 56	\$ 0.65

Year Ended December 31, 2019			
<i>(In millions, except per share amounts)</i>			
	Operating Income	Net Loss	EPS
GAAP, as reported	\$ 17	\$ (47)	\$ (0.51)
Adjustments for special items:			
Closure costs, impairment and other related charges	18	18	0.19
Inventory write-downs related to closures	13	13	0.14
Net gain on disposition of assets	(2)	(2)	(0.02)
Non-operating pension and other postretirement benefit credits	—	(47)	(0.51)
Other expense, net	—	22	0.24
Income tax effect of special items	—	(3)	(0.03)
Adjusted for special items ⁽¹⁾	\$ 46	\$ (46)	\$ (0.50)

⁽¹⁾ Operating income (loss), net income (loss) and net income (loss) per share (or, “EPS”), in each case as adjusted for special items, are not financial measures recognized under U.S. generally accepted accounting principles (or, “GAAP”). We calculate operating income (loss), as adjusted for special items, as operating income (loss) from our Consolidated Statements of Operations, adjusted for items such as closure costs, impairment and other related charges, inventory write-downs related to closures, start-up costs, and gains and losses on disposition of assets that are excluded from our segment’s performance from GAAP operating income (loss). We calculate net income (loss), as adjusted for special items, as net income (loss) from our Consolidated Statements of Operations, adjusted for the same special items applied to operating income (loss), in addition to non-operating pension and other postretirement benefit (or, “OPEB”) costs and credits, other income and expense, net, and the income tax effect of the special items. EPS, as adjusted for special items, is calculated as net income (loss), as adjusted for special items, per diluted share. We believe that using these non-GAAP measures is useful because they are consistent with the indicators management uses internally to measure the Company’s performance, and it allows the reader to compare our operations and financial performance from period to period. Operating income (loss), net income (loss) and EPS, in each case as adjusted for special items, are internal measures, and therefore may not be comparable to those of other companies. These non-GAAP measures should not be viewed as substitutes to financial measures determined under GAAP.

Fourth Quarter Overview

Three months ended December 31, 2020 vs. December 31, 2019

Our operating income was \$4 million in the quarter, compared to operating loss of \$69 million in the year-ago period. Excluding special items, we incurred an operating income of \$85 million in the quarter, compared to operating loss of \$39 million in the year-ago period. Special items are described below.

Our net loss in the quarter was \$52 million, or \$0.63 per share, compared to net loss of \$71 million, or \$0.79 per share, in the year-ago period. Our net income in the quarter, excluding special items, was \$45 million, or \$0.55 per diluted share, compared to net loss of \$53 million, or \$0.59 per share, in the year-ago period.

Three Months Ended December 31, 2020 <i>(In millions, except per share amounts)</i>	Operating Income	Net (Loss) Income	EPS
GAAP, as reported	\$ 4	\$ (52)	\$ (0.63)
Adjustments for special items:			
Closure costs, impairment and other related charges	55	55	0.67
Inventory write-downs related to closures	25	25	0.30
Start-up costs	3	3	0.04
Net gain on disposition of assets	(2)	(2)	(0.02)
Non-operating pension and other postretirement benefit costs	—	24	0.29
Other expense, net	—	28	0.34
Income tax effect of special items	—	(36)	(0.44)
Adjusted for special items ⁽¹⁾	\$ 85	\$ 45	\$ 0.55

Three Months Ended December 31, 2019 <i>(In millions, except per share amounts)</i>	Operating Loss	Net Loss	EPS
GAAP, as reported	\$ (69)	\$ (71)	\$ (0.79)
Adjustments for special items:			
Closure costs, impairment and other related charges	18	18	0.20
Inventory write-downs related to closures	13	13	0.14
Net gain on disposition of assets	(1)	(1)	(0.01)
Non-operating pension and other postretirement benefit credits	—	(11)	(0.12)
Income tax effect of special items	—	(1)	(0.01)
Adjusted for special items ⁽¹⁾	\$ (39)	\$ (53)	\$ (0.59)

⁽¹⁾ Operating income (loss), net income (loss) and EPS, in each case as adjusted for special items, are non-GAAP financial measures. For more information on the calculation and reasons we include these measures, see note 1 under “Overview – 2020 Overview” above.

RESULTS OF OPERATIONS

Consolidated Results

Selected annual financial information

<i>(In millions, except per share amounts)</i>	Years Ended December 31,		
	2020	2019	2018
Sales	\$ 2,800	\$ 2,923	\$ 3,756
Operating (loss) income per segment:			
Market pulp	\$ (1)	\$ 39	\$ 172
Tissue	(1)	(16)	(30)
Wood products	276	(6)	169
Paper	(46)	82	114
Segment total	228	99	425
Corporate and other	(129)	(82)	(46)
Operating income	\$ 99	\$ 17	\$ 379
Net income (loss) attributable to Resolute Forest Products Inc.	\$ 10	\$ (47)	\$ 235
Net income (loss) per share attributable to Resolute Forest Products Inc. common shareholders:			
Basic	\$ 0.12	\$ (0.51)	\$ 2.57
Diluted	\$ 0.12	\$ (0.51)	\$ 2.52
Adjusted EBITDA ⁽¹⁾	\$ 338	\$ 213	\$ 574

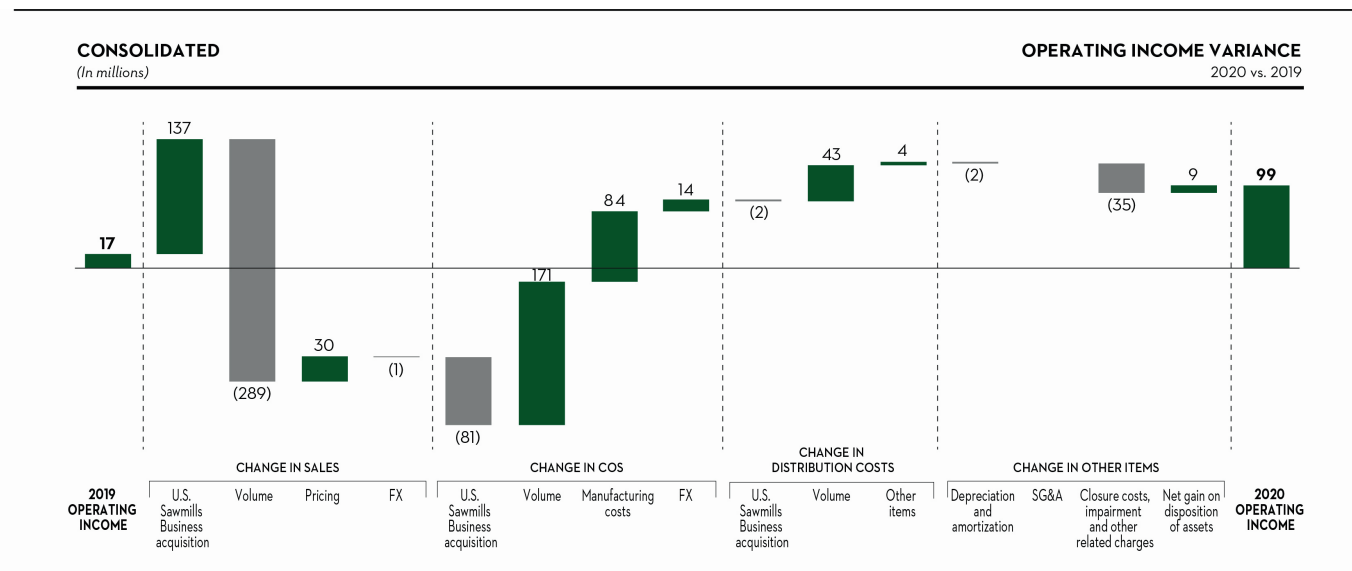
<i>(In millions)</i>	As of December 31,	
	2020	2019
Cash and cash equivalents	\$ 113	\$ 3
Total assets	\$ 3,730	\$ 3,626

⁽¹⁾ Earnings before interest expense, income taxes, and depreciation and amortization (or, “*EBITDA*”) and adjusted EBITDA are not financial measures recognized under GAAP. EBITDA is calculated as net income (loss) including noncontrolling interest from the Consolidated Statements of Operations, adjusted for interest expense, income taxes, and depreciation and amortization. Adjusted EBITDA means EBITDA, excluding special items, such as closure costs, impairment and other related charges, inventory write-downs related to closures, start-up costs, gains and losses on disposition of assets, non-operating pension and OPEB costs and credits, and other income and expense, net. We believe that using non-GAAP measures such as EBITDA and adjusted EBITDA is useful because they are consistent with the indicators management uses internally to measure the Company’s performance and it allows the reader to compare our operations and financial performance from period to period. EBITDA and adjusted EBITDA are internal measures, and therefore may not be comparable to those of other companies. These non-GAAP measures should not be viewed as substitutes to financial measures determined under GAAP.

<i>(In millions)</i>	Years Ended December 31,		
	2020	2019	2018
Net income (loss) including noncontrolling interest	\$ 10	\$ (47)	\$ 235
Interest expense	34	31	47
Income tax provision	51	58	152
Depreciation and amortization	169	167	212
EBITDA	264	209	646
Closure costs, impairment and other related charges	53	18	121
Inventory write-downs related to closures	25	13	(1)
Start-up costs	3	—	8
Net gain on disposition of assets	(11)	(2)	(145)
Non-operating pension and other postretirement benefit credits	—	(47)	(50)
Other expense (income), net	4	22	(5)
Adjusted EBITDA	\$ 338	\$ 213	\$ 574

2020 vs. 2019

Operating income variance analysis



Sales

Sales were \$123 million lower in 2020, or 4%, to \$2,800 million. After removing the sales related to the acquisition of the U.S. Sawmill Business in the first quarter of 2020, sales volume declined by \$289 million, mainly reflecting lower shipments in paper and market pulp, partly offset by higher shipments of wood products. Pricing had a favorable impact of \$30 million, mainly as a result of an increase in the average transaction price for wood products and tissue, up by 41% and 6%, respectively, partly offset by lower average transaction price for market pulp and paper, down by 13% and 11%, respectively.

Cost of sales, excluding depreciation, amortization and distribution costs

After removing the COS related to the acquisition of the U.S. Sawmill Business, the effects of lower volume and the effect of the weaker Canadian dollar, COS decreased by \$84 million in 2020, largely reflecting:

- favorable maintenance costs (\$55 million), largely associated with timing of outages and reduced spending;
- lower energy prices (\$12 million);
- Canada Emergency Wage Subsidy (or “CEWS”) credit (\$10 million);
- higher contribution from our internal power generation facilities (\$7 million); and
- lower fiber costs (\$6 million);

partially offset by:

- increase in write-downs of mill stores and other supplies inventory associated with the temporary idling of the Amos and Baie-Comeau paper mills compared to the prior year write-downs associated to the indefinite idling of the Augusta (Georgia) paper mill (\$12 million).

Depreciation and amortization

Depreciation and amortization was \$2 million higher in 2020, primarily due to the acquisition of the U.S. Sawmill Business (\$7 million), offset by lower depreciation on the integrated business management software, which was fully depreciated in the fourth quarter of 2019 (\$4 million).

Selling, general and administrative expenses

Selling, general and administrative (or, “SG&A”) expenses were unchanged compared to the year-ago period, mainly due to higher incentive plan expense, which is based on company performance, and higher stock-based compensation expense, offset by lower headcount, travel and entertainment expenses and overall lower expenses.

Closure costs, impairment and other related charges

See the corresponding variance analysis under “Corporate and Other” below.

Net gain on disposition of assets

See the corresponding variance analysis under “Corporate and Other” below.

Net income (loss) variance analysis

Non-operating pension and other postretirement benefit credits

We recorded non-operating pension and OPEB credits of nil for the full year in 2020, compared to \$47 million in the year-ago period. The difference mainly reflects lower interest cost (\$32 million) and an OPEB curtailment credit related to the indefinite idling of our Augusta mill (\$14 million), partly offset by a settlement loss related to the wind-up of the pension plan of the Thorold paper mill that was indefinitely idled in 2017 and sold in 2020 (\$28 million), higher amortization of actuarial losses (\$29 million) and lower amortization of prior service credits (\$7 million), lower expected return on plan assets (\$25 million), and a pension special termination benefit cost related to the indefinite idling of our Augusta mill (\$3 million).

Other expense, net

We recorded other expense, net of \$4 million in 2020, compared to other expense, net of \$22 million in the prior year. The difference mostly reflects a loss on forward commodities contracts of \$22 million, offset by a current period favorable insurance claim settlement of \$15 million related to our acquisition of Atlas in 2015, compared to the \$23 million provision related to the Fibrek Inc. (or, “Fibrek”) litigation recorded in the year-ago period.

Income taxes

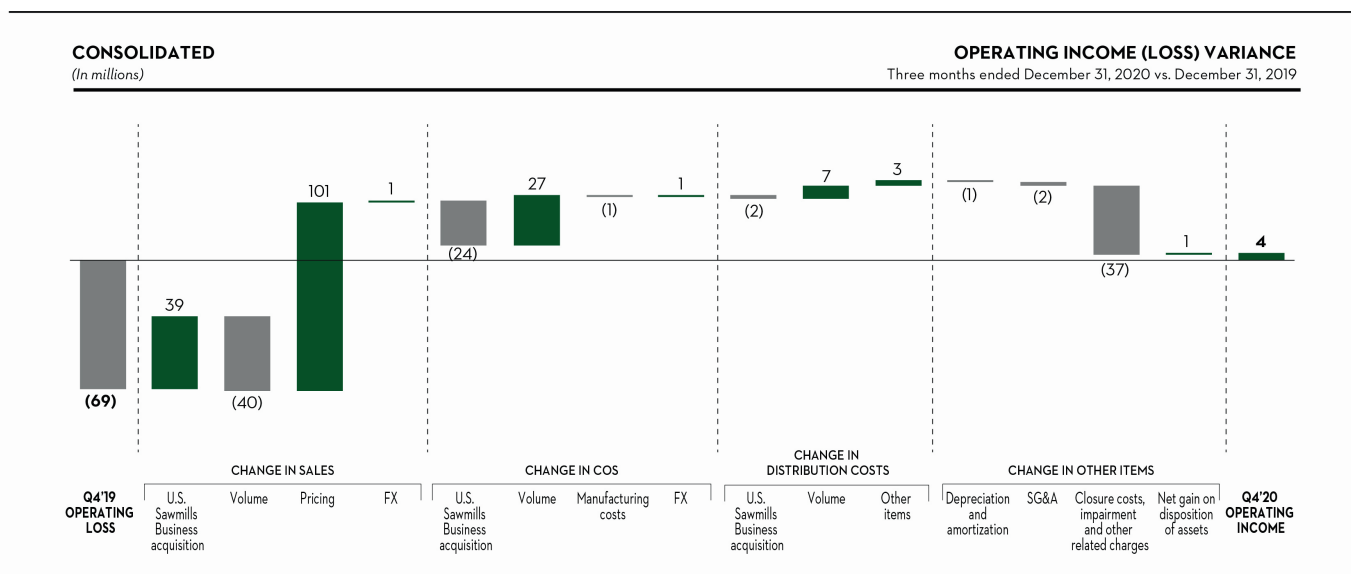
We recorded an income tax provision of \$51 million in 2020, on income before income taxes of \$61 million, compared to an expected income tax provision of \$13 million based on the U.S. federal statutory income tax rate of 21%. The difference reflects: U.S. tax on non-U.S. earnings (\$23 million); an increase to our valuation allowance related to our U.S. operations

(\$11 million) where we recognize a full valuation allowance against our net deferred income tax assets; foreign tax rate differences (\$10 million); and foreign exchange items (\$6 million); partly offset by state income taxes (\$6 million); and other, net (\$6 million) mainly related to the settlement of an insurance claim in connection with our acquisition of Atlas.

We recorded an income tax provision of \$58 million in 2019, on income before income taxes of \$11 million, compared to an expected income tax provision of \$2 million based on the U.S. federal statutory income tax rate of 21%. The difference mainly reflects: an increase to our valuation allowance related to our U.S. operations (\$43 million) where we recognize a valuation allowance against virtually all of our net deferred income tax assets; foreign tax rate differences (\$11 million); and U.S. tax on non-U.S. earnings (\$7 million); partly offset by state income taxes (\$7 million).

Q4 of 2020 vs. Q4 of 2019

Operating income (loss) variance analysis



Sales

Sales increased by \$101 million, or 15%, compared to the fourth quarter of 2019, to \$769 million. After removing the sales related to the acquisition of the U.S. Sawmill Business in the first quarter of 2020, sales volume was \$40 million lower, mainly due to lower shipments of paper, partially offset by higher volumes of wood products. Pricing had a favorable impact of \$101 million, mainly as a result of an increase in the average transaction price for wood products, up by 67%, partly offset by lower average transaction price for paper, down by 7%.

Cost of sales, excluding depreciation, amortization and distribution costs

After removing the COS related to the acquisition of the U.S. Sawmill Business, the effects of lower volume and the effect of the weaker Canadian dollar, COS increased by \$1 million in the quarter, mainly reflecting higher stumpage costs related to current wood prices (\$9 million) partly offset by favorable maintenance costs (\$6 million), largely associated with timing of outages and reduced spending.

Selling, general and administrative expenses

SG&A expenses increased by \$2 million in the quarter, mainly due to higher incentive plan expense, which is based on company performance, and higher stock-based compensation expense, mostly offset by lower headcount and lower overall expenses.

Closure costs, impairment and other related charges

In the fourth quarter of 2020, we recorded closure costs, impairment and other related charges of \$55 million, related to the temporary idling of our Amos and Baie-Comeau paper mills, including accelerated depreciation charges of \$38 million and severance and other costs of \$17 million. This compares to closure costs, impairment and other related charges of \$18 million in the year-ago period, mainly due to the indefinite idling of our paper mill at Augusta, including severance and other costs of \$10 million and accelerated depreciation charges of \$8 million.

Net loss variance analysis

Non-operating pension and other postretirement benefit (costs) credits

We recorded non-operating pension and OPEB costs of \$24 million in the quarter, compared to a credit of \$11 million in the year-ago period. The difference mainly reflects: lower interest cost (\$8 million); partly offset by settlement loss related to the wind-up of the Thorold pension plan (\$28 million), higher amortization of actuarial losses (\$7 million) and lower expected return on plan assets (\$6 million).

Other expense, net

We recorded other expense, net of \$28 million in the fourth quarter of 2020, compared to nil in the year-ago period. The difference mostly reflects a loss on forward commodities contracts of \$15 million and a foreign exchange loss of \$13 million in the current period.

Income taxes

We recorded an income tax benefit of \$4 million in the fourth quarter of 2020, on a loss before income taxes of \$56 million, compared to an expected income tax benefit of \$12 million based on the U.S. federal statutory income tax rate of 21%. The difference reflects mostly a decrease to our valuation allowance related to our U.S. operations (\$10 million); partly offset by U.S. tax on non-U.S. earnings (\$22 million).

We recorded an income tax provision of \$6 million in the fourth quarter of 2019, on a loss before income taxes of \$65 million, compared to an expected income tax benefit of \$14 million based on the U.S. federal statutory income tax rate of 21%. The difference reflects mostly: an increase to our valuation allowance related to our U.S. operations (\$25 million); partly offset by U.S. tax on non-U.S. earnings (\$4 million).

2019 vs. 2018

For a variance analysis of our 2019 vs. 2018 results of operations, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Consolidated Results – 2019 vs. 2018,” of our annual report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 2, 2020 (or, the “*2019 Annual Report*”).

Segment Earnings

We manage our business based on the products we manufacture. Our reportable segments correspond to our principal product lines: market pulp, tissue, wood products, and paper. As of the second quarter of 2020, the results from our newsprint and specialty papers operations have been combined to form the paper reportable segment. This better reflects management’s internal analysis, given the diminishing percentage newsprint and specialty papers represent in our product portfolio. Comparative information has been modified to conform to this revised segment presentation.

We do not allocate any of the income or loss items following “operating income” in our Consolidated Statements of Operations to our segments because those items are reviewed separately by management. Similarly, we do not allocate to the segments: closure costs, impairment and other related charges; inventory write-downs related to closures; start-up costs; gains and losses on disposition of assets; as well as other discretionary charges or credits.

We allocate depreciation and amortization expense to our segments, although the related fixed assets and amortizable intangible assets are not allocated to segment assets. Additionally, all SG&A expenses are allocated to our segments, with the exception of certain discretionary charges and credits, which we present under “corporate and other.”

MARKET PULP

Highlights

	Years Ended December 31,		
	2020	2019	2018
<i>(In millions, except where otherwise stated)</i>			
Sales	\$ 668	\$ 797	\$ 1,085
Operating (loss) income ⁽¹⁾	\$ (1)	\$ 39	\$ 172
EBITDA ⁽²⁾	\$ 23	\$ 62	\$ 199
<i>(In thousands of metric tons)</i>			
Shipments	1,118	1,156	1,424
Downtime	100	56	93
<i>(In thousands of metric tons)</i>			
December 31,			
	2020	2019	2018
Finished goods inventory	53	68	80

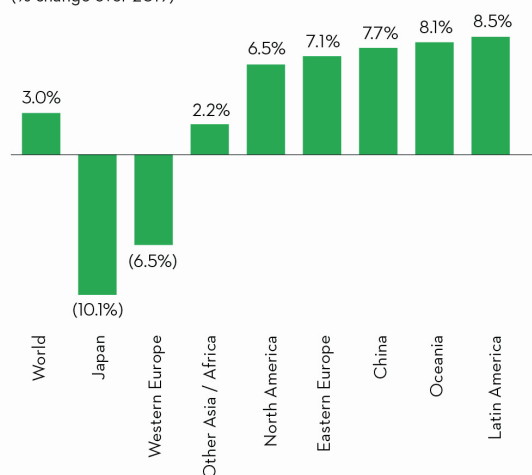
(1) Net (loss) income including noncontrolling interest is equal to operating (loss) income in this segment.

(2) EBITDA, a non-GAAP financial measure, is reconciled below. For more information on the calculation and reasons we include this measure, see note 1 under “Results of Operations – Consolidated Results – Selected annual financial information” above.

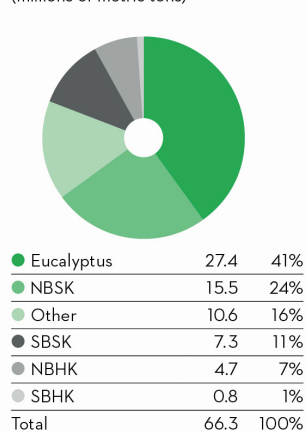
	Years Ended December 31,		
	2020	2019	2018
<i>(In millions)</i>			
Net (loss) income including noncontrolling interest	\$ (1)	\$ 39	\$ 172
Depreciation and amortization	24	23	27
EBITDA	\$ 23	\$ 62	\$ 199

Industry trends

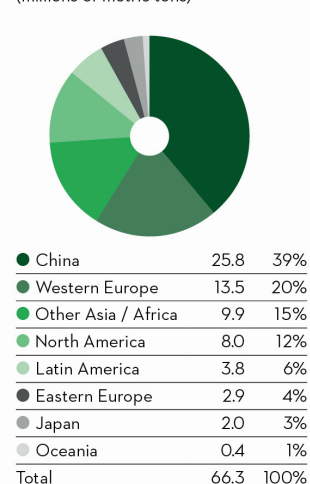
2020 CHANGE IN WORLD CHEMICAL PULP DEMAND, BY REGION
(% change over 2019)



2020 WORLD CHEMICAL PULP DEMAND DISTRIBUTION, BY GRADE
(millions of metric tons)



2020 WORLD CHEMICAL PULP DEMAND DISTRIBUTION, BY REGION
(millions of metric tons)



Source: Pulp and Paper Products Council (or “PPPC”)

World demand for chemical pulp grew by 3% in 2020 compared to the year-ago period, reflecting an increase of 7.7% in China and of 6.5% in North America, partly offset by a decrease of 6.5% in Western Europe. World capacity grew by 0.8% over the same period.

TISSUE

Highlights

<i>(In millions, except where otherwise stated)</i>	Years Ended December 31,		
	2020	2019	2018
Sales	\$ 173	\$ 165	\$ 130
Operating loss ⁽¹⁾	\$ (1)	\$ (16)	\$ (30)
EBITDA ⁽²⁾	\$ 17	\$ 2	\$ (15)
<i>(In thousands of short tons)</i>			
Shipments ⁽³⁾	95	97	84
Downtime	8	2	2

<i>(In thousands of short tons)</i>	December 31,		
	2020	2019	2018
Finished goods inventory ⁽³⁾	6	8	5

(1) Net loss including noncontrolling interest is equal to operating loss in this segment.

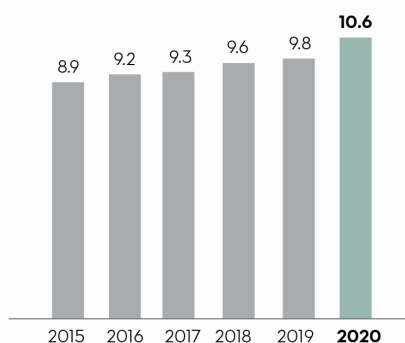
(2) EBITDA, a non-GAAP financial measure, is reconciled below. For more information on the calculation and reasons we include this measure, see note 1 under “Results of Operations – Consolidated Results – Selected annual financial information” above.

(3) Tissue converted products, which are measured in cases, are converted to short tons.

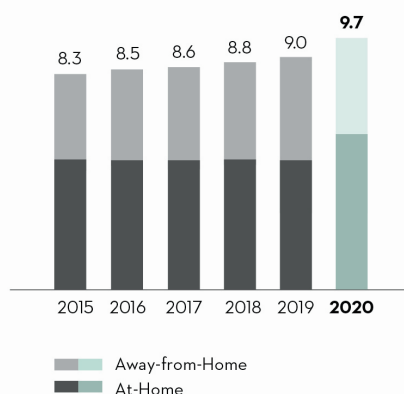
<i>(In millions)</i>	Years Ended December 31,		
	2020	2019	2018
Net loss including noncontrolling interest	\$ (1)	\$ (16)	\$ (30)
Depreciation and amortization	18	18	15
EBITDA	\$ 17	\$ 2	\$ (15)

Industry trends

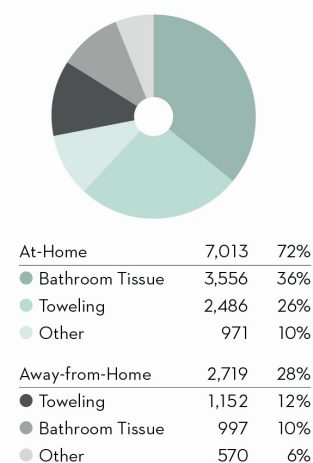
U.S. TOTAL TISSUE CONSUMPTION
(millions of short tons)



U.S. CONVERTED TISSUE PRODUCTS SHIPMENTS
(millions of short tons)



2020 U.S. CONVERTED TISSUE PRODUCTS SHIPMENT DISTRIBUTION, BY GRADE
(thousands of short tons)



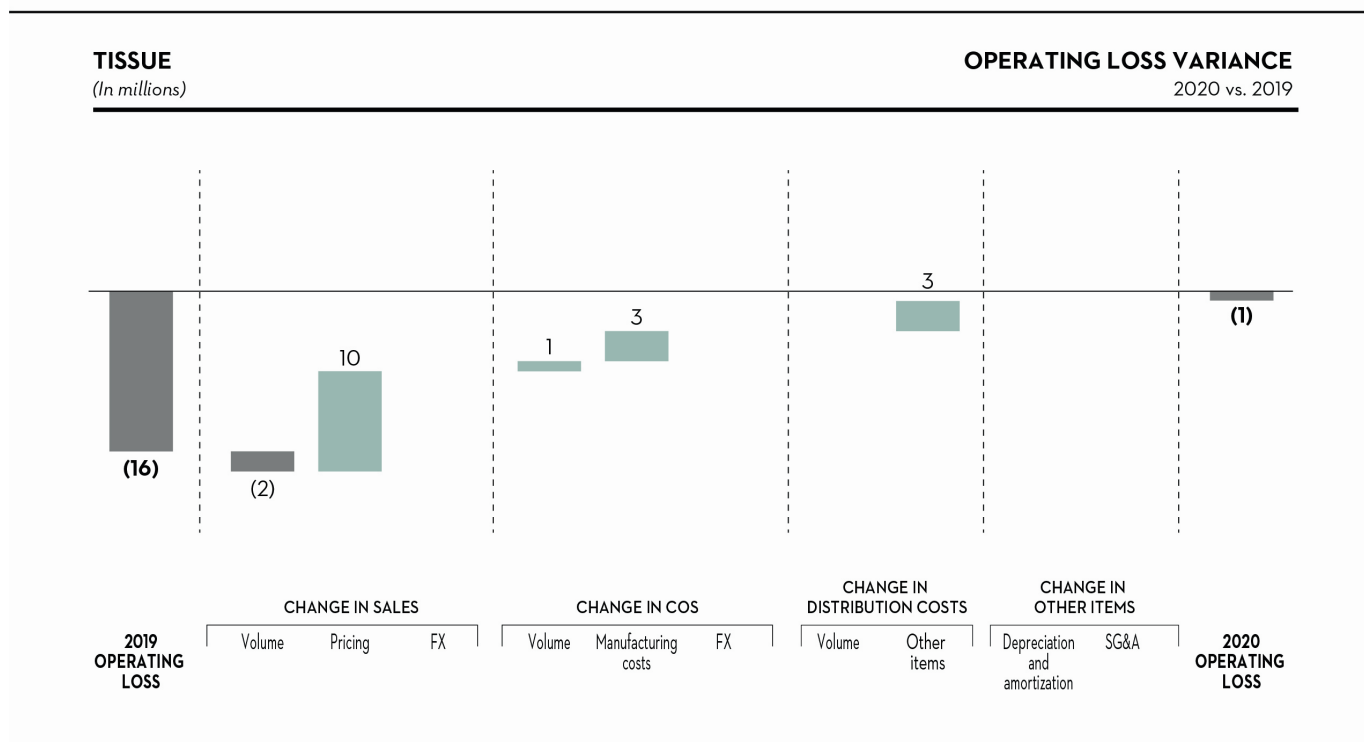
Source: RISI

Total U.S. tissue consumption grew by 8.6% in 2020 compared to the year-ago period. Converted product shipments increased by 8.1%, led by at-home shipments up by 16.3%, while away-from-home shipments decreased by 8.5%.

U.S. parent roll production increased by 7.0% in 2020, contributing to a 97% average industry production-to-capacity ratio, up from 93% in the year-ago period.

2020 vs. 2019

Operating loss variance analysis



Sales

Sales were \$8 million higher, or 5%, increasing to \$173 million in 2020. Shipments were essentially unchanged as productivity gains for retail products manufactured at the Calhoun operations compensated for a pandemic-driven drop in away-from-home demand affecting Florida operations. The average transaction price was \$107 per short ton higher, mainly due to favorable prices for converted products.

Cost of sales, excluding depreciation, amortization and distribution costs

After removing the effects of lower volume, our manufacturing costs decreased by \$3 million compared to 2019, mainly due to lower fiber costs.

Distribution costs

Distribution costs improved by \$3 million, mainly as a result of better customer mix.

2019 vs. 2018

For a variance analysis of our 2019 vs. 2018 results of operations, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Segment Earnings – Tissue – 2019 vs. 2018,” of our 2019 Annual Report.

WOOD PRODUCTS

Highlights

<i>(In millions, except where otherwise stated)</i>	Years Ended December 31,		
	2020	2019	2018
Sales	\$ 1,025	\$ 616	\$ 823
Operating income (loss) ⁽¹⁾	\$ 276	\$ (6)	\$ 169
EBITDA ⁽²⁾	\$ 319	\$ 28	\$ 201
<i>(In million board feet)</i>			
Shipments ⁽³⁾	2,043	1,731	1,846
Downtime	279	242	147

<i>(In million board feet)</i>	December 31,		
	2020	2019	2018
Finished goods inventory ⁽³⁾	97	133	157

(1) Net income (loss) including noncontrolling interest is equal to operating income (loss) in this segment.

(2) EBITDA, a non-GAAP financial measure, is reconciled below. For more information on the calculation and reasons we include this measure, see note 1 under “Results of Operations – Consolidated Results – Selected annual financial information” above.

(3) Includes wood pellets measured by mass, converted to board feet using a density-based conversion ratio.

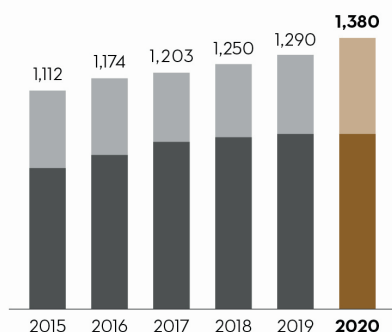
<i>(In millions)</i>	Years Ended December 31,		
	2020	2019	2018
Net income (loss) including noncontrolling interest	\$ 276	\$ (6)	\$ 169
Depreciation and amortization	43	34	32
EBITDA	\$ 319	\$ 28	\$ 201

Industry trends

NEW PRIVATELY OWNED HOUSING UNITS STARTED

(thousands of units)

Multi-family
 Single-family

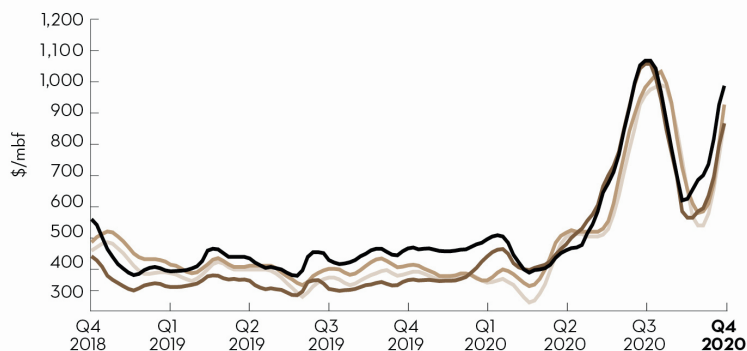


Source: U.S. Census Bureau

SELECTED LUMBER GRADES PRICE COMPARISON

(\$/mbf)

2x4 - RL #1-2 KD GL
 2x4 - RL #2 KD Southern Pine (Eastside)
 2x4x8 Stud KD GL
 2x4 - RL #2 KD Southern Pine (Westside)

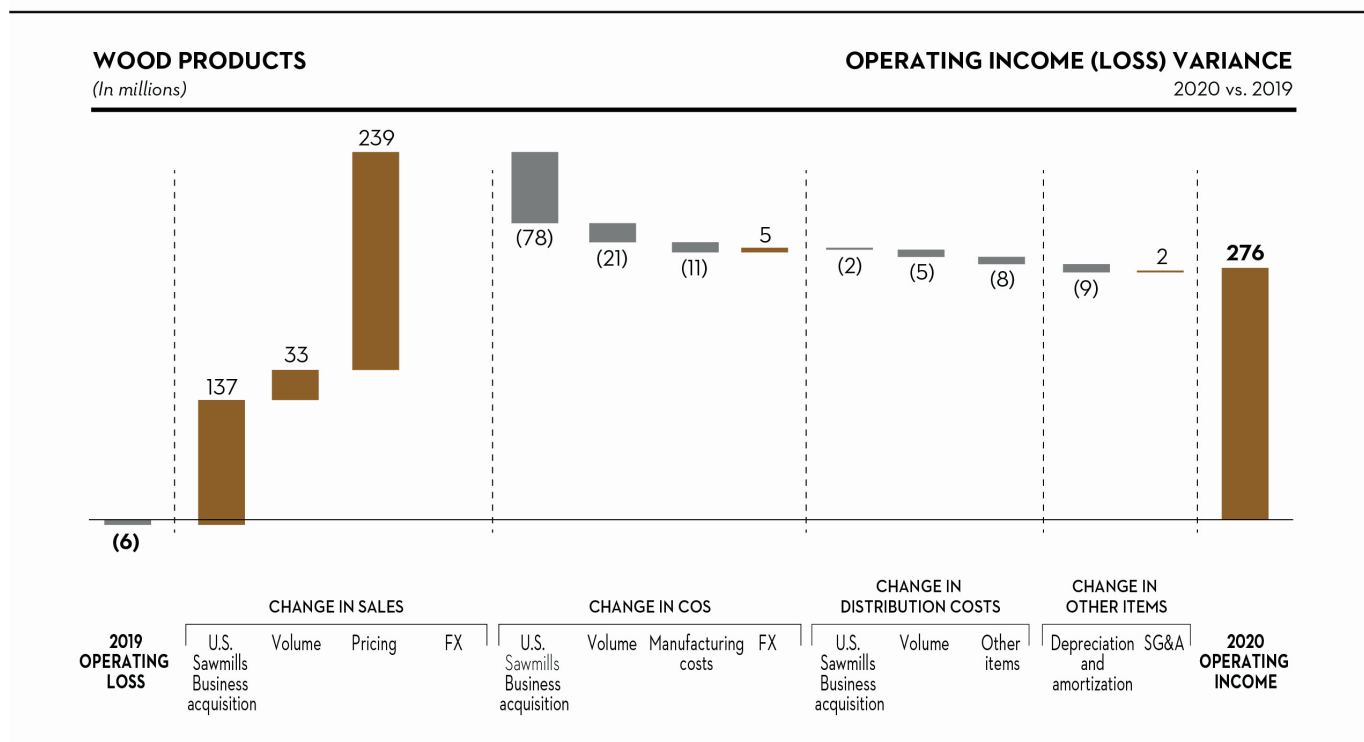


Source: Random Lengths Publications, Inc.

U.S. housing starts were 1.4 million on a seasonally adjusted basis in 2020, up by 7.9% compared to 2019, which reflects a 12.3% increase in single-family starts, offset by a decrease of 1.9% in multi-family starts.

The 2x4 – Random Length (or, “RL”) #1-2 Kiln Dried Great Lakes (or, “KD GL”) price rose by 44.3% in 2020 compared to the year ago period, and the 2x4x8 Stud KD GL price rose by 70.4%. The 2x4 – RL #2 KD Southern Pine (Eastside) price increased by 46.3%, and the 2x4 – RL #2 KD Southern Pine (Westside) price was up by 48.2%.

Operating income (loss) variance analysis



Sales

Sales were \$409 million higher, or 66%, to \$1,025 million in 2020, reflecting new volume related to the acquisition of the U.S. Sawmill Business, the increase in market demand for home repairs and remodeling, and stronger U.S. market housing starts. Shipments rose by 312 million board feet and the average transaction price increased by \$146 per thousand board feet, or 41%. After removing the sales related to the acquisition of the U.S. Sawmill Business, sales were \$272 million higher. Pricing contributed to \$239 million increase, reflecting a rise in average transaction price, and sales volume was \$33 million higher. Finished goods inventory dropped to 97 million board feet.

Cost of sales, excluding depreciation, amortization and distribution costs

After removing the COS related to the acquisition of the U.S. Sawmill Business, the effects of higher volume and the weaker Canadian dollar, manufacturing costs increased by \$11 million, mainly reflecting higher log costs.

Distribution costs

After removing the COS related to the acquisition of the U.S. Sawmill Business and the effects of higher volume, distribution costs increased by \$8 million, mainly as a result of higher freight rates and unfavorable destination mix.

Depreciation and amortization

Depreciation and amortization increased by \$9 million compared to the year-ago period, primarily due to the acquisition of the U.S. Sawmill Business.

2019 vs. 2018

For a variance analysis of our 2019 vs. 2018 results of operations, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Segment Earnings – Wood Products – 2019 vs. 2018,” of our 2019 Annual Report.

PAPER

Highlights

<i>(In millions, except where otherwise stated)</i>	Years Ended December 31,		
	2020	2019	2018
Sales	\$ 934	\$ 1,345	\$ 1,718
Operating (loss) income ⁽¹⁾	\$ (46)	\$ 82	\$ 114
EBITDA ⁽²⁾	\$ 23	\$ 154	\$ 227
<i>(In thousands of metric tons)</i>			
Shipments	1,577	2,017	2,532
Downtime	514	203	42

<i>(In thousands of metric tons)</i>	December 31,		
	2020	2019	2018
Finished goods inventory	96	142	150

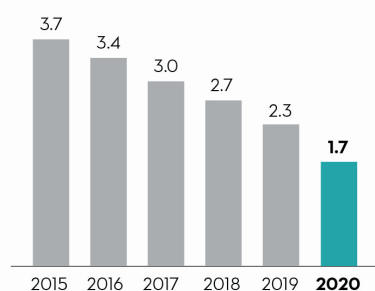
(1) Net (loss) income including noncontrolling interest is equal to operating (loss) income in this segment.

(2) EBITDA, a non-GAAP financial measure, is reconciled below. For more information on the calculation and reasons we include this measure, see note 1 under “Results of Operations – Consolidated Results – Selected annual financial information” above.

<i>(In millions)</i>	Years Ended December 31,		
	2020	2019	2018
Net (loss) income including noncontrolling interest	\$ (46)	\$ 82	\$ 114
Depreciation and amortization	69	72	113
EBITDA	\$ 23	\$ 154	\$ 227

Industry trends

N.A. NEWSPRINT DEMAND
(millions of metric tons)

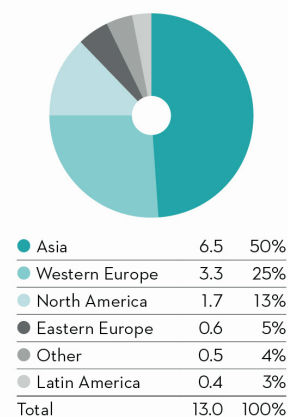


Source: PPPC

2020 CHANGE IN WORLD NEWSPRINT DEMAND, BY REGION
(% change over 2019)



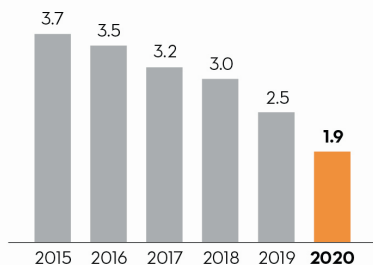
2020 WORLD NEWSPRINT DEMAND DISTRIBUTION, BY REGION
(millions of metric tons)



North American newsprint demand fell by 26.2% in 2020, compared to 2019. Demand from newspaper publishers fell by 29.4%, while demand from commercial printers also decreased, by 21.4%. The North American shipment-to-capacity ratio was 75%, compared to 83% in the year-ago-period.

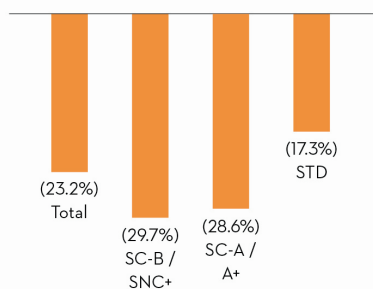
Global demand for newsprint fell by 22.6% in 2020, with Asia down by 20.3%, and Western Europe down by 21.5%. Accordingly, the global operating rate decreased to 72%, down from 84% in 2019.

N.A. UNCOATED MECHANICAL PAPER DEMAND
(millions of short tons)

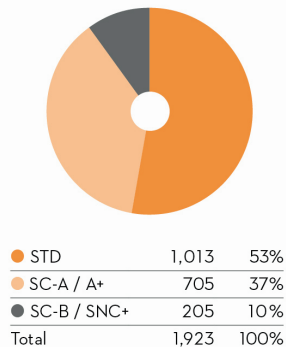


Source: PPPC

2020 CHANGE IN N.A. UNCOATED MECHANICAL PAPER DEMAND, BY GRADE
(% change over 2019)

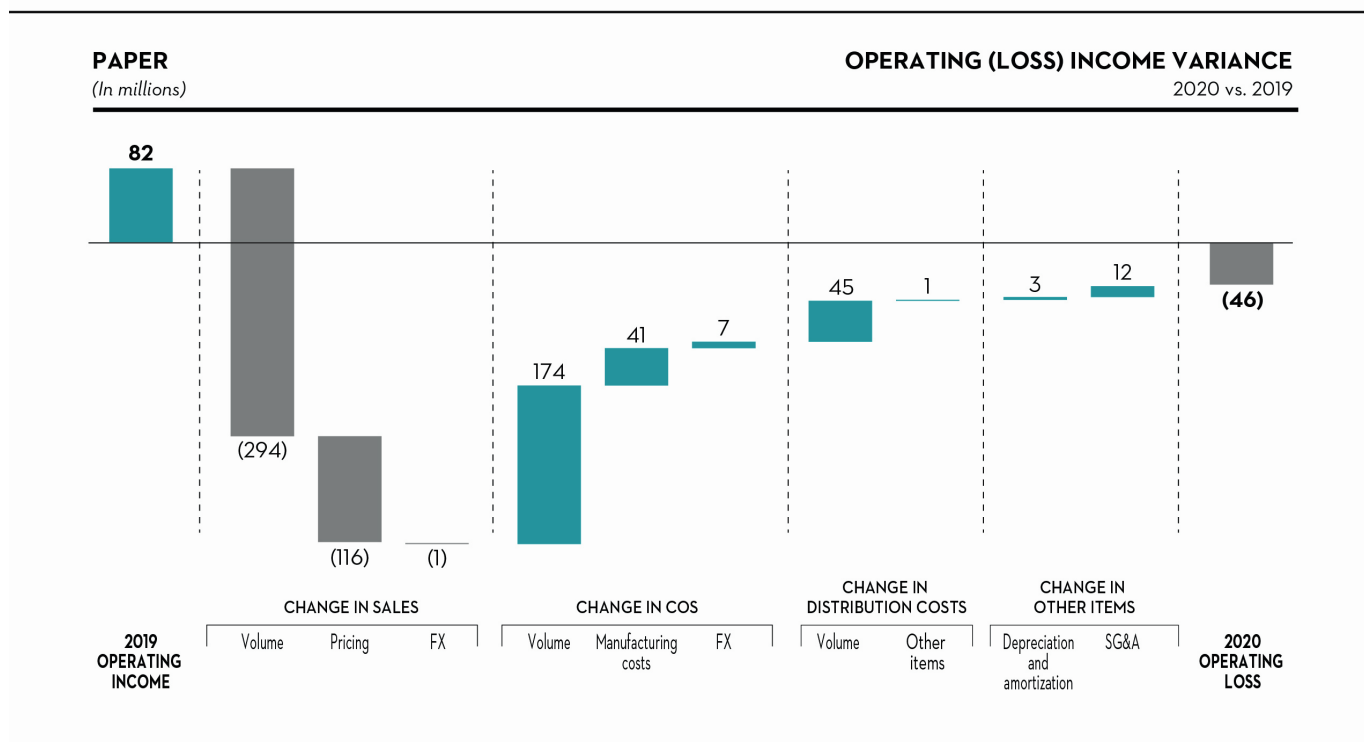


2020 N.A. UNCOATED MECHANICAL PAPER DEMAND DISTRIBUTION, BY GRADE
(thousands of short tons)



North American demand for uncoated mechanical papers was down by 23.2% in 2020 compared to the year-ago-period, reflecting a 29.0% decrease in supercalendered (or, “SC”) grades, and a 17.3% drop in standard grades. Compared to 2019, the shipment-to-capacity ratio for all uncoated mechanical papers decreased from 83% to 73%.

Operating (loss) income variance analysis



Sales

Sales fell by \$411 million, or 31%, to \$934 million in 2020. Shipments decreased by 440,000 metric tons, largely reflecting much lower demand levels since the onset of the pandemic and our resulting capacity adjustments particularly for marketing-dependent products and commercial paper. The average transaction price dropped by \$75 per metric ton compared to 2019 due to weaker market fundamentals accelerated by the pandemic.

Cost of sales, excluding depreciation, amortization and distribution costs

Manufacturing costs decreased by \$41 million after adjusting for the effects of lower volume and the weaker Canadian dollar, reflecting:

- favorable maintenance costs (\$28 million), due to reduced spending as well as the indefinite idling of our Augusta mill, partly offset by the temporary idling of the Amos and Baie-Comeau paper mills;
- lower energy prices (\$6 million); and
- higher contribution from our internal power generation facilities (\$5 million).

Selling, general and administrative expenses

SG&A expenses decreased by \$12 million in the year, mainly due to lower headcount and travel and entertainment expenses.

2019 vs. 2018

As of the second quarter of 2020, the results from our newsprint and specialty papers operations have been combined to form the paper reportable segment. For a variance analysis of our 2019 vs. 2018 results of operations, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Segment Earnings – Newsprint – 2019 vs. 2018,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Segment Earnings– Specialty Papers – 2019 vs. 2018,” of our 2019 Annual Report.

CORPORATE AND OTHER

Highlights

<i>(In millions)</i>	Years Ended December 31,		
	2020	2019	2018
Cost of sales, excluding depreciation, amortization and distribution costs	\$ (34)	\$ (23)	\$ (12)
Depreciation and amortization	(15)	(20)	(25)
Selling, general and administrative expenses	(38)	(23)	(33)
Closure costs, impairment and other related charges	(53)	(18)	(121)
Net gain on disposition of assets	11	2	145
Operating loss	(129)	(82)	(46)
Interest expense	(34)	(31)	(47)
Non-operating pension and other postretirement benefit credits	—	47	50
Other (expense) income, net	(4)	(22)	5
Income tax provision	(51)	(58)	(152)
Net loss including noncontrolling interest	\$ (218)	\$ (146)	\$ (190)

The table below shows the reconciliation of net loss including noncontrolling interest to EBITDA and adjusted EBITDA, which are non-GAAP financial measures. For more information on the calculation and reasons we include these measures, see note 1 under “Results of Operations – Consolidated Results – Selected annual financial information” above.

<i>(In millions)</i>	Years Ended December 31,		
	2020	2019	2018
Net loss including noncontrolling interest	\$ (218)	\$ (146)	\$ (190)
Interest expense	34	31	47
Income tax provision	51	58	152
Depreciation and amortization	15	20	25
EBITDA	(118)	(37)	34
Closure costs, impairment and other related charges	53	18	121
Inventory write-downs related to closures	25	13	(1)
Start-up costs	3	—	8
Net gain on disposition of assets	(11)	(2)	(145)
Non-operating pension and other postretirement benefit credits	—	(47)	(50)
Other expense (income), net	4	22	(5)
Adjusted EBITDA	\$ (44)	\$ (33)	\$ (38)

2020 vs. 2019

Cost of sales, excluding depreciation, amortization and distribution costs

COS was \$34 million in 2020, mainly reflecting:

- write-downs of mill stores and other supplies inventory (\$25 million) related to the temporary idling of our Amos and Baie-Comeau paper mills; and
- start-up costs (\$3 million) for the El Dorado sawmill.

In 2019, we incurred COS of \$23 million, which included:

- write-downs of mill stores and other supplies inventory (\$13 million) related to the indefinite idling of our paper mill at Augusta; and
- asset preservation costs (\$5 million), mainly related to our indefinitely idled Thorold (Ontario) paper mill and our permanently closed Fort Frances (Ontario) mill.

Depreciation and amortization

Depreciation and amortization was \$5 million lower in 2020 as the integrated business management software was fully depreciated in the fourth quarter of 2019 (\$4 million).

Selling, general and administrative expenses

SG&A expenses increased by \$15 million in 2020, mainly due to higher incentive plan expense, which is based on company performance, and higher stock-based compensation expense.

Closure costs, impairment and other related charges

In 2020, we recorded closure costs, impairment and other related charges of \$55 million, related to the temporary idling of our Amos and Baie-Comeau paper mills, including: accelerated depreciation charges of \$38 million, and severance and other costs of \$17 million.

This compares to closure costs, impairment and other related charges of \$18 million in 2019, related to the indefinite idling of our paper mill at Augusta, including: severance and other costs of \$10 million; and accelerated depreciation charges of \$8 million.

Net gain on disposition of assets

In 2020, we recorded a net gain on disposition of assets of \$11 million, compared to \$2 million in 2019, which reflected: the sale of the Augusta paper mill for total cash consideration of \$10 million, resulting in a net gain of \$9 million; and the sale of the Thorold paper mill for total cash consideration of \$4 million, resulting in a net gain of \$2 million.

2019 vs. 2018

For a variance analysis of our 2019 vs. 2018 results of operations, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Corporate and Other – 2019 vs. 2018,” of our 2019 Annual Report.

LIQUIDITY AND CAPITAL RESOURCES

Capital Resources

We rely on cash and cash equivalents, cash flows provided by operations, and our credit facilities: to fund our operations; to make pension contributions; and to finance our working capital, capital expenditures, duty cash deposits and opportunities for our growth and transformation strategy. In addition, from time to time we may use available cash to reduce debt and to return capital to shareholders, including through share repurchases or special dividends. As of December 31, 2020, we had cash and cash equivalents of \$113 million and availability of \$580 million under our credit facilities.

Based on our current projections, we expect to have sufficient financial resources available to finance our business plan, make pension contributions, meet working capital and duty cash deposit requirements, and maintain an appropriate level of capital spending.

Based on market conditions, we may seek to repay or refinance our outstanding indebtedness as we continue to focus on reducing costs and enhancing our flexibility.

Senior Unsecured Notes

The 2023 Notes, issued on May 8, 2013, were unsecured and guaranteed by substantially all of our U.S. subsidiaries. The 2023 Notes bear interest at a rate of 5.875%; they were sold at an offering price of 99.062% of the \$600 million aggregate principal amount and began paying interest semi-annually on November 15, 2013. On January 3, 2019, we repurchased \$225 million in aggregate principal amount of the 2023 Notes, pursuant to a notes purchase agreement entered into on December 21, 2018, with certain noteholders, at a purchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest. As a result of the repurchase, we recorded a net loss on extinguishment of debt of \$3 million in “Other (expense) income, net” in our Consolidated Statement of Operations for the year ended December 31, 2019.

On February 2, 2021, we completed the Offering of \$300 million aggregate principal amount of our 2026 Notes at an issue price of 100%. The 2026 Notes are unsecured and are guaranteed by all of our current and, subject to certain conditions, future material wholly-owned U.S. subsidiaries. The Notes mature on March 1, 2026, unless earlier redeemed or repurchased, and will be recorded in “Long-term debt” in our consolidated balance sheet at their fair value of \$300 million. Interest on the notes is payable semi-annually on March 1 and September 1 of each year, beginning on September 1, 2021.

We used the net proceeds of the Offering, together with cash on hand, to redeem all of the remaining outstanding \$375 million aggregate principal amount of our 2023 Notes, at a price of 100% of the aggregate principal amount thereof, plus accrued and unpaid interest to, but not including, the redemption date. In connection with the redemption of all \$375 million aggregate principal amount of the 2023 Notes (or, the “Redemption”), we placed, on February 2, 2021, the net proceeds of the closing of the Offering, together with additional cash, into trust for the benefit of the holders of the 2023 Notes. The Redemption occurred on February 18, 2021.

For more information, see Note 15, “Long-Term Debt – Debt instruments – Senior Unsecured Notes,” to our Consolidated Financial Statements.

Senior Secured Credit Facility

On September 7, 2016, we entered into a senior secured credit facility for up to \$185 million. This senior secured credit facility provided a term loan of \$46 million with a maturity date of September 7, 2025, and a revolving credit facility of up to \$139 million with a maturity date of September 7, 2022. On October 28, 2019, we entered into an amended and restated senior secured credit facility (or, the “Senior Secured Credit Facility”) for up to \$360 million, replacing our existing \$185 million senior secured credit facility. The Senior Secured Credit Facility provided a term loan facility of up to \$180 million with a delayed draw period of up to three years, and the choice of maturities of six to 10 years (or, the “Term Loan Facility”), and a six-year revolving credit facility of up to \$180 million with a maturity date of October 28, 2025 (or, the “Revolving Credit Facility”). In March 2020, we borrowed \$180 million in term loans under the Term Loan Facility for 10 years, maturing in March 2030. There is also an uncommitted option to increase the Senior Secured Credit Facility by up to an additional \$360 million, subject to certain terms and conditions. On October 28, 2019, we repaid our \$46 million term loan by borrowing under the Revolving Credit Facility.

The obligations under the Senior Secured Credit Facility are guaranteed by certain material U.S. subsidiaries of the Company and are secured by a first priority mortgage on the real property of our Calhoun facility and a first priority security interest on the fixtures and equipment located therein.

As of December 31, 2020, we had \$180 million of availability under the Revolving Credit Facility, which was undrawn.

For more information, see Note 15, “Long-Term Debt – Debt instruments – Senior Secured Credit Facility,” to our Consolidated Financial Statements.

ABL Credit Facility

On May 14, 2019, we entered into an amendment to the five-year credit agreement dated May 22, 2015, for our ABL Credit Facility. The amended credit agreement provides for an extension of the maturity date to May 14, 2024, with an aggregate lender commitment of up to \$500 million at any time outstanding, subject to borrowing base availability based on specified advance rates, eligibility criteria and customary reserves.

The aggregate lender commitment under the facility includes a \$60 million swingline sub-facility and a \$200 million letter of credit sub-facility, and we may convert up to \$50 million of the commitments under the facility to a first-in last-out facility, subject to the consent of each converting lender. The ABL Credit Facility also provides for an uncommitted ability to increase the revolving credit facility by up to \$500 million, subject to certain terms and conditions set forth in the agreement.

The obligations under the credit agreement are guaranteed by certain material subsidiaries of the Company and are secured by first priority liens on and security interests in accounts receivable, inventory and related assets.

As of December 31, 2020, we had \$270 million of availability under the ABL Credit Facility, which was undrawn except for \$56 million of ordinary course letters of credit outstanding.

Effective January 21, 2021, we reduced the commitment under the Canadian tranche of our senior secured asset-based revolving credit facility by \$50 million, to \$250 million, resulting in an aggregate commitment of \$450 million, subject to borrowing base limitations.

For more information, see Note 15, “Long-Term Debt – Debt instruments – ABL Credit Facility,” to our Consolidated Financial Statements.

Loan Facility

On November 4, 2020, our Canadian subsidiary, Resolute FP Canada Inc., entered into a Loan Facility with Investissement Québec as lender for up to C\$220 million (\$173 million as of December 31, 2020), representing up to 75% of the countervailing and anti-dumping duty deposits (or, the “*Duties*”) imposed or expected to be imposed by the U.S. Department of Commerce and collected by Customs and Border Protection Agency (or, “*U.S. Customs*”) on U.S. imports of applicable softwood lumber products produced at sawmills of the Borrower and its affiliates located in the province of Quebec, Canada from April 28, 2017 to December 31, 2022.

The borrowings under the Loan Facility bear interest at a floating rate equal to 1.45% above the one-month Canadian Banker’s Acceptance rate. The Loan Facility provides for a maximum of 10 draws and the fulfillment of certain conditions upon each draw. The outstanding principal is repayable in consecutive monthly installments over a period of eight years, after an interest only period of two years from the date of the first draw. Outstanding amounts may be prepaid, partially or fully, at any time at our discretion, without premium or penalty, but subject to payment of accrued and unpaid interest. We are required to make a prepayment equal to any amounts reimbursed by U.S. Customs on account of the U.S. imports of certain softwood lumber products produced at our sawmills located in the province of Quebec, Canada (or, the “*Quebec Prepayments*”).

The obligations under the Loan Facility will be secured by a first priority security interest and a control agreement on certain of our bank accounts identified to receive any Quebec Prepayments. In addition, we have agreed to transfer to the designated bank accounts any amounts constituting Quebec Prepayments, and may not grant any other security interest on such bank accounts. The Loan Facility is required to be used exclusively to finance certain of our activities and obligations in the province of Quebec, Canada, and may not be used to pay or reimburse any Duties.

As of December 31, 2020, we had C\$165 million (\$130 million) of availability under the Loan Facility, subject to certain conditions. The Loan Facility was undrawn as of December 31, 2020.

For more information, see Note 15, “Long-Term Debt – Loan Facility,” to our Consolidated Financial Statements.

Credit rating risk

Although our debt agreements do not include any provision that would require material changes in payment schedules or terminations as a result of a credit rating downgrade, we believe our access to capital markets at a reasonable cost is determined in part by credit quality. A credit rating downgrade could impact our ability to access capital markets at a reasonable cost. These ratings reflect the views of the rating agencies only. An explanation of the significance of these ratings can be obtained from each rating agency. The ratings are not a recommendation to buy, sell or hold securities. Any rating can be revised upward or downward or withdrawn at any time by a rating agency.

	December 31,		
	2020	2019	2018
Standard & Poor's			
Senior unsecured debt	B	B+	B+
Long-term corporate credit rating	B+	BB-	BB-
Outlook	Negative	Stable	Stable
Moody's Investors Service			
Senior unsecured debt	B2	B1	B1
Corporate family rating	B1	Ba3	Ba3
Outlook	Negative	Stable	Stable
Liquidity rating	SGL-2	SGL-1	SGL-1

On January 19, 2021, both rating outlooks were revised from negative to stable and the Moody's liquidity rating was upgraded to SGL-1.

Flow of Funds

Summary of cash flows

A summary of cash flows for the years ended December 31, 2020, 2019 and 2018 was as follows:

<i>(In millions)</i>	Years Ended December 31,		
	2020	2019	2018
Net cash provided by operating activities	\$ 334	\$ 85	\$ 435
Net cash (used in) provided by investing activities	(297)	(162)	146
Net cash provided by (used in) financing activities	78	(228)	(281)
Effect of exchange rate changes on cash and cash equivalents, and restricted cash	2	2	(4)
Net increase (decrease) in cash and cash equivalents, and restricted cash	\$ 117	\$ (303)	\$ 296

2020 vs. 2019

Net cash provided by operating activities

We generated \$334 million of cash from operating activities in 2020, compared to \$85 million last year. The increase is attributable to higher profitability, a favorable working capital variance in the current period, and lower pension contributions.

Net cash used in investing activities

We used \$297 million of cash in investing activities in 2020, compared to \$162 million in the prior year. The difference reflects:

- the acquisition of the U.S. Sawmill Business, net of cash acquired, in the current period (\$172 million); and
- higher countervailing and anti-dumping duty cash deposits (\$29 million);

offset in part by:

- lower capital expenditures (\$35 million) and higher disposition of assets (\$11 million); and
- proceeds from an insurance recovery related to our acquisition of Atlas in 2015 (\$15 million), in the current period.

Net cash provided by (used in) financing activities

Net cash provided by financing activities was \$78 million in 2020, compared to cash used in financing activities of \$228 million in 2019. The difference reflects:

- proceeds from long term debt of \$180 million in 10-year term loans under the Senior Secured Credit Facility to finance the acquisition of the U.S. Sawmill Business, whereas in the year ago period we repurchased \$225 million in aggregate principal amount of our 2023 Notes and repaid our \$46 million term loan;

partly offset by:

- repayments of \$71 million under our revolving credit facilities in the current year, compared to borrowings of \$71 million in the prior year.

2019 vs. 2018

For a variance analysis of our 2019 vs. 2018 cash flows, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Flow of Funds – 2019 vs. 2018,” of our 2019 Annual Report.

2021 outlook

For 2021, we expect to invest \$95 million in capital expenditures, net of funding under existing business development programs, including: \$10 million for the recently acquired U.S. Sawmill Business; and investments for the cellulose filament plant in Kénogami, and for the improvement of productivity and yields at our sawmills.

Countervailing duty and anti-dumping investigations of softwood lumber

We became required to pay cash deposits for estimated countervailing duties and anti-dumping duties on the vast majority of our U.S. imports of softwood lumber products produced at our Canadian sawmills, since April 28, 2017, and June 30, 2017, respectively. As of December 31, 2020, the rates for these estimated countervailing duties and anti-dumping duties were 19.10% and 1.15%, respectively. Based on our current operating parameters, the cash deposits could be as high as \$80 million per year.

For additional information, see Part I, Item 1A, “Risk Factors – Legal and Compliance Risks – We are subject to countervailing and anti-dumping duty orders on the vast majority of our U.S. imports of softwood lumber products produced at our Canadian sawmills, which could materially affect our operations and cash flows,” of this Form 10-K, and Note 18, “Commitments and Contingencies – Legal matters – Countervailing duty and anti-dumping investigations of softwood lumber,” to our Consolidated Financial Statements.

Employee Benefit Plans

Pension and OPEB plans

In 2020, we contributed \$91 million to our defined benefit pension plans and \$17 million to our defined contribution pension plans, while recognizing a \$19 million cost in aggregate, before special events. We also made payments of \$11 million to OPEB plans, while recognizing a \$5 million credit to the net periodic benefit cost, before special events.

In December 2020, the pension plan of the Thorold paper mill, which was indefinitely idled in 2017 and sold in 2020, was wound-up following the approval of the pension benefits distribution and assets liquidation. This resulted in the conversion of the buy-in annuity contract to a buy-out contract, and the recognition of a settlement loss of \$28 million in "Non-operating pension and other postretirement benefit credits" in our Consolidated Statements of Operations for the year ended December 31, 2020, and the reduction of both pension plan assets and pension benefit obligations by \$98 million.

For 2021, we expect to make approximately \$102 million of contributions to our defined benefit pension plans, \$17 million to our defined contribution pension plans, and \$12 million to OPEB plans. The expected \$11 million increase in defined benefit pension plan contributions is mainly a result of the substantial drop in discount rates from prior years.

For 2021, we expect to expense approximately \$17 million of defined contribution pension plan costs, with a defined benefit pension cost of \$17 million and a \$6 million credit for our defined benefit OPEB plans. The expected \$15 million increase in pension plan expenses from 2020 is mainly explained by higher amortization of actuarial gains and losses, mostly as a result of the substantial drop in discount rates from prior years.

We fund our pension and OPEB plans as required by applicable laws and regulations; we could, from time to time, make additional contributions.

Canadian pension funding

Quebec plans

The funding of our Quebec pension plans is subject to Quebec's *Supplemental Pension Plans Act* (or, the "SPPA"), which is the pension plan funding regime generally applicable to pension plans in that province. Our contributions to our Quebec plans are determined on a going concern basis under the Quebec's SPPA.

Ontario plans

Since January 1, 2019, all of our Ontario pension plans are subject to the *Ontario Pension Benefits Act* (or, the "PBA"), which is the pension plan funding regime generally applicable to pension plans in that province. The PBA provides for funding pension fund deficits on a going concern basis, or on a solvency basis if the solvency funded status of a pension plan is below 85%.

Funding deficit calculation

The assumptions used to calculate the pension funding deficit are materially different from the assumptions used to determine the net pension obligations for purposes of our Consolidated Financial Statements.

The funding deficit calculation of our Quebec pension plans is subject to Quebec's SPPA, which provides for the funding of pension deficits on a going concern basis. The funding deficit calculation of our Ontario pension plans is subject to Ontario's PBA, which provides for the funding of pension fund deficits on a going concern basis, or on a solvency basis if the solvency funded status of a pension plan is below 85%. Under a going concern basis, the liabilities are calculated on the assumption that the plans will continue to operate indefinitely, and the liabilities are discounted using a rate determined by a model that develops an expected long-term return on assets, based on the asset mix of the plans as of the actuarial valuation date. The liabilities also include a provision for adverse deviation. Under a solvency basis, the liabilities are calculated on the assumption that the plans are terminated at the measurement date, and the liabilities are discounted primarily using a specified annuity purchase rate, which is the spot interest rate on government securities in Canada plus a prescribed margin at the measurement date.

The funding of our U.S. pension plan is governed by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code, and is also subject to the Moving Ahead for Progress in the 21st Century Act, the Highway and Transportation Funding Act of 2014, and the Bipartisan Budget Act of 2015. Under these regulations, the liabilities are discounted using 25-year average corporate bond rates within a specified corridor. The corridor will be maintained at 10% through 2020, will widen to 15% in 2021, and will widen an additional 5% each year to 30% in 2024 and beyond.

By contrast, for purposes of our Consolidated Financial Statements, the discount rate is determined with a model that develops a hypothetical high-quality bond portfolio, where the bonds are theoretically purchased to settle the expected benefit payments of the plans.

The weighted-average discount rate, funded ratio, and deficit of the pension plans for both accounting and funding purposes for the years ended December 31, 2020 and 2019, were as follows:

<i>(In millions, except percentages)</i>	Accounting		Funding	
	December 31,		December 31,	
	2020	2019	2020 ⁽¹⁾	2019 ⁽²⁾
Discount rate	2.5%	3.0%	5.1%	5.6%
Funded ratio	73%	74%	86%	88%
Deficit	\$ (1,440)	\$ (1,326)	\$ (629)	\$ (497)

(1) Determined on a going concern basis for Canadian plans, and on a 25-year average interest rate basis for U.S. plans, and assuming actuarial valuations performed for all plans on December 31, 2020.

(2) Determined on a going concern basis for Canadian plans, and on a 25-year average interest rate basis for U.S. plans.

Additional undertakings

Our principal Canadian subsidiaries had entered into certain undertakings with the Government of Ontario and Quebec, which expired in 2015 and 2016, respectively. The expiration of those undertakings did not eliminate ongoing obligations we incurred under the terms of those undertakings prior to their expiration, including the undertaking requiring us to make an additional solvency deficit reduction contribution to our pension plans of C\$75, payable over four years, for each metric ton of capacity reduced in Quebec or Ontario, in the event of downtime of more than six consecutive months or nine cumulative months over a period of 18 months. Accordingly, we made additional contributions for past capacity reductions of C\$4 million and C\$2 million in 2019 and 2020, respectively. The 2020 contribution was the last one required to be made in respect of these undertakings.

Partial wind-ups of pension plans

On June 12, 2012, we filed a motion for directives with the Quebec Superior Court, the court with jurisdiction in the creditor protection proceedings under the *Companies' Creditors Arrangement Act* (Canada) (or, the "CCAA Creditor Protection Proceedings"), seeking an order to prevent pension regulators in each of Quebec, New Brunswick, and Newfoundland and Labrador from declaring partial wind-ups of pension plans relating to employees of former operations in New Brunswick and Newfoundland and Labrador, or a declaration that any claim for accelerated reimbursements of deficits arising from a partial wind-up is a barred claim under the CCAA Creditor Protection Proceedings. We contend, among other things, that any such declaration, if issued, would be inconsistent with the Quebec Superior Court's sanction order confirming the CCAA debtors' *CCAA Plan of Reorganization and Compromise*, as amended, and the terms of our emergence from the CCAA Creditor Protection Proceedings. A partial wind-up would likely shorten the period in which any deficit within those plans, which could reach up to C\$150 million (\$118 million), would have to be funded if we do not obtain the relief sought. The hearing in this matter could occur in 2021.

Share Repurchase Program

On March 2, 2020, our board of directors authorized a share repurchase program of up to 15% of our common stock, for an aggregate consideration of up to \$100 million. During the year ended December 31, 2020, we repurchased 6.9 million shares at a cost of \$30 million under this program. During the year ended December 31, 2019, we repurchased 4.8 million shares at a cost of \$24 million under our \$150 million share repurchase program, which was completed in 2019. We did not repurchase any shares during 2018.

Dividends

We declared and paid a special dividend of \$1.50 per share (\$136 million) on our common stock in 2018. We did not declare or pay any dividends on our common stock during the years ended December 31, 2020 and 2019.

Contractual Obligations

As of December 31, 2020, the Company's contractual obligations, including payments due by period, were as follows:

<i>(In millions)</i>	Total	2021	2022-2023	2024-2025	2026 and thereafter
Long-term debt ⁽¹⁾	\$ 656	\$ 28	\$ 419	\$ 10	\$ 199
Non-cancelable operating lease obligations ⁽²⁾	82	12	19	13	38
Purchase obligations ⁽²⁾	202	73	109	4	16
	\$ 940	\$ 113	\$ 547	\$ 27	\$ 253

⁽¹⁾ Long-term debt obligations primarily represent interest payments and the payment of the remaining principal balance at maturity of our 2023 Notes, assuming no prior redemptions. Interest on our credit facility borrowings is assumed to remain unchanged from the rates in effect as of December 31, 2020, assuming no additional borrowings or repayments until maturity. Information on our long-term debt can be found in "Note 15, "Long-Term Debt," to our Consolidated Financial Statements. The 2023 Notes were redeemed subsequent to year-end, see Note 23, "Subsequent Events," to our Consolidated Financial Statements.

⁽²⁾ Information on our operating leases and purchase obligations can be found in Note 12, "Operating Leases" and Note 18, "Commitments and Contingencies – Commitments," to our Consolidated Financial Statements.

The above table excludes the future obligations under our pension and OPEB plans due to the uncertainty in the timing and amount of future payments. Information on our pension and OPEB plans can be found in "Note 16, "Pension and Other Postretirement Benefit Plans," to our Consolidated Financial Statements.

RECENT ACCOUNTING GUIDANCE

New accounting pronouncements adopted in 2020

See Note 2, "Summary of Significant Accounting Policies – New accounting pronouncements adopted in 2020," to our Consolidated Financial Statements for more information.

Accounting pronouncements not yet adopted as of December 31, 2020

See Note 2, "Summary of Significant Accounting Policies – Accounting pronouncements not yet adopted as of December 31, 2020," to our Consolidated Financial Statements for more information.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires us to make accounting estimates based on assumptions, judgments and projections of future results of operations and cash flows. These estimates and assumptions affect the reported amounts of revenues and expenses during the periods presented and the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements.

We base our estimates, assumptions and judgments on a number of factors, including historical experience, recent events, existing conditions, internal budgets and forecasts, projections obtained from industry research firms, and other data that we believe are reasonable under the circumstances. We believe that our accounting estimates are appropriate and that the resulting financial statement amounts are reasonable. Due to the inherent uncertainties in making estimates, actual results could differ materially from these estimates, requiring adjustments to financial statement amounts in future periods.

A summary of our significant accounting policies is disclosed in Note 2, "Summary of Significant Accounting Policies," to our Consolidated Financial Statements. Based upon a review of our significant accounting policies, we believe the following accounting policies require us to make accounting estimates that can significantly affect the results reported in our Consolidated Financial Statements. We have reported the development, selection and disclosures of our critical accounting estimates to the audit committee of our board of directors, and the audit committee has reviewed the disclosures relating to these estimates.

Pension and OPEB obligations

Description of accounts impacted by the accounting estimates

We record pension and OPEB obligations, net of pension plan assets that may be considered material to our financial position. We also record net periodic benefit cost (credit) associated with these net obligations as our employees render service. As of December 31, 2020, we had pension and OPEB obligations aggregating \$5,382 million and accumulated pension plan assets at fair value of \$3,806 million. In 2020, we recorded a net periodic benefit cost of \$15 million.

Judgments and uncertainties involved in the accounting estimates

The following inputs are used to determine our net obligations and our net periodic benefit cost (credit) each year and the determination of these inputs requires judgment:

- discount rate – used to determine the net present value of our pension and OPEB obligations and to determine the interest cost component of our net periodic benefit cost (credit). The discount rate for our domestic and foreign plans was determined with a model that develops a hypothetical high-quality bond portfolio, where the bonds are theoretically purchased to settle the expected benefit payments of the plans. The discount rate reflects the single rate that produces the same discounted values as the value of the theoretical high-quality bond portfolio;
- return on assets – used to estimate the growth in the value of invested assets that are available to satisfy pension benefit obligations and to determine the expected return on plan assets component of our net periodic pension benefit cost (credit). In determining the expected return on assets, we considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio;
- life expectancy rate – used to estimate the impact of life expectancy on our pension and OPEB obligations. In determining the life expectancy rate of our domestic and foreign plans, we used the most recent actuarially-determined mortality tables and improvement scales. For the foreign plans, the mortality tables were adjusted with the result of our historical mortality experience study. The rates used are consistent with our future expectations of life expectancy for the employees who participate in our pension and OPEB plans;
- rate of compensation increase – used to calculate the impact future pay increases will have on our pension obligations. In determining the rate of compensation increase, we reviewed historical salary increases and promotions, while considering current industry conditions, the terms of collective bargaining agreements with our employees and the outlook for our industry; and
- health care cost trend rate – used to calculate the impact of future health care costs on our OPEB obligations. For the health care cost trend rate, we considered historical trends for these costs, as well as recently enacted healthcare legislation.

Effect if actual results differ from assumptions

Variations in assumptions could have a significant effect on the net periodic benefit cost and pension and OPEB obligations reported in our Consolidated Financial Statements. For example, a 25 basis point change in any one of these assumptions would have increased (decreased) our net periodic benefit cost for our pension and OPEB plans and our pension and OPEB obligations as follows:

<i>(In millions)</i>	2020 Net Periodic Benefit Costs		Pension and OPEB Obligations as of December 31, 2020	
	25 Basis Point Increase	25 Basis Point Decrease	25 Basis Point Increase	25 Basis Point Decrease
<u>Assumption:</u>				
Discount rate	\$ —	\$ 1	\$ (128)	\$ 141
Return on assets	\$ (9)	\$ 9	\$ —	\$ —
Rate of compensation increase	\$ —	\$ —	\$ 2	\$ (2)
Health care cost trend rate	\$ —	\$ —	\$ 1	\$ (1)

As of December 31, 2020, the most significant change in our assumptions affecting our pension and OPEB obligations was a decrease in the discount rate to 2.5% from 3.0% as of December 31, 2019, resulting in an actuarial loss of \$285 million and a corresponding increase in our pension and OPEB obligations.

The net periodic benefit cost of our pension plans incorporates an expected return on plan assets and not the actual return on plan assets. The difference between the expected and actual return on plan assets resulted in an actuarial gain of \$15 million in 2020.

These net actuarial losses of \$244 million in 2020, before tax, were recorded in “accumulated other comprehensive loss” and will be amortized into our Consolidated Statements of Operations in future years, including approximately \$77 million in 2021.

Deferred income tax assets

Description of accounts impacted by the accounting estimates

We have net deferred income tax assets of \$915 million recorded in our Consolidated Balance Sheet as of December 31, 2020, all of which is related to our Canadian operations; and a full valuation allowance is recorded against our U.S. net deferred income tax assets. Our net deferred income tax assets are primarily comprised of:

U.S.:

- deferred income tax assets of \$804 million, of which \$544 million is for federal and state net operating loss carryforwards expiring between 2021 and 2040; \$103 million for federal and state net operating loss and deduction limitation carryforwards with no expiry; and \$157 million for other temporary differences, mostly related to pension and OPEB plans;
- deferred income tax liabilities of \$67 million, mostly related to tax accelerated depreciation on fixed assets; and
- a valuation allowance of \$737 million against the net deferred income tax assets, which are not more likely than not to be realized in the future;

Canada:

- deferred income tax assets of \$981 million, comprised of \$195 million related to undeducted research and development expenditures with no expiry; \$78 million for tax credit carryforwards expiring between 2022 and 2040; \$12 million for federal and provincial net operating loss carryforwards expiring between 2028 and 2039; as well as \$696 million for other temporary differences, mostly related to fixed asset undepreciated capital costs with no expiry, as well as pension and OPEB plans;
- deferred income tax liabilities of \$30 million for various temporary differences; and
- a valuation allowance of \$36 million, virtually all of which is related to net capital loss carryforwards with no expiry.

Judgments and uncertainties involved in the accounting estimates

At each reporting period, we assess whether it is more likely than not that the deferred income tax assets will be realized, based on the review of all available positive and negative evidence, including future reversals of existing taxable temporary differences, estimates of future taxable income, past operating results, and prudent and feasible tax planning strategies. The carrying value of our deferred income tax assets reflects our expected ability to generate sufficient future taxable income in certain tax jurisdictions to realize these deferred income tax assets.

Following the assessment of our ability to realize the deferred income tax assets of our U.S. operations, we concluded that existing negative evidence outweighed positive evidence. As a result, we recognized a full valuation allowance against our net U.S. deferred income tax assets. The historical operating losses of our U.S. operations limited our ability to consider other subjective positive evidence. A valuation allowance does not reduce our underlying tax attributes, nor hinders our ability to use them in the future. If, in the future, sufficient objective positive evidence becomes available such that, based on the weight of available evidence, it is determined to be more likely than not that some or all of the deferred income tax assets associated with our U.S. operations can be realized, the valuation allowance will be reduced as appropriate, with the related adjustment being recognized as a decrease to the income tax provision.

The positive evidence for our Canadian operations, which included a review of historical cumulative earnings and our forecasted future earnings, resulted in the conclusion by management that no significant valuation allowances were required for our deferred income tax assets, as they were determined to be more likely than not to be realized.

The Company calculates its income tax provision for the period based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed in subsequent years. Adjustments based on actual filed income tax returns are recorded when identified.

Tax benefits related to uncertain tax positions are recorded when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by the relevant tax authority. The amount of tax benefit recognized may differ from the amount taken or expected to be taken on a tax return. These differences represent unrecognized tax benefits and are reviewed at each reporting period based on facts, circumstances and other available evidence. We have unrecognized tax benefits of \$28 million as of December 31, 2020. As income tax legislation and regulations are complex and subject to interpretation, our tax positions could be challenged by tax authorities.

Effect if actual results differ from assumptions

Our forecasted future earnings represent important positive evidence in determining the recoverability of our deferred income tax assets. If actual future financial results are not consistent with the assumptions and judgments used, or if additional significant closure-related costs are recorded in future years, we may be required to reduce the carrying value of our net deferred income tax assets by recording additional valuation allowances, resulting in an income tax provision that could be material.

We do not expect a significant change to the amount of unrecognized tax benefits over the next 12 months. However, any adjustments arising from certain ongoing examinations by tax authorities could alter the timing or amount of taxable income or deductions, or the allocation of income among tax jurisdictions, and these adjustments could differ from the amount accrued.

Long-lived assets

Description of accounts impacted by the accounting estimates

We have long-lived assets recorded in our Consolidated Balance Sheet of \$1,564 million as of December 31, 2020. These long-lived assets include fixed assets, net, amortizable intangible assets, net, and operating lease right-of-use assets. In 2020, we recorded depreciation and amortization of \$169 million and accelerated depreciation charges of \$38 million related to fixed assets and amortizable intangible assets. Depreciation and amortization and accelerated depreciation charges are based on accounting estimates.

The unit of accounting for impairment testing for long-lived assets is its group, see Note 2, “Summary of Significant Accounting Policies – Impairment of long-lived assets,” to our Consolidated Financial Statements. The unit of accounting for the depreciation and amortization of long-lived assets is at a lower level, either as a group of closely-related assets or at an individual asset level. The cost of a long-lived asset is amortized over its estimated remaining useful life, which is subject to change based on events and circumstances or management’s intention for the use of the asset.

Losses related to the impairment of long-lived assets to be held and used are recognized when circumstances indicate the carrying value of an asset group may not be recoverable, such as continuing losses in certain businesses. When indicators that the carrying value of an asset group may not be recoverable are triggered, we evaluate the carrying value of the asset group in relation to its expected undiscounted future cash flows. If the carrying value of an asset group is greater than the expected undiscounted future cash flows to be generated by the asset group, an impairment charge is recognized based on the excess of the asset group’s carrying value over its fair value. If it is determined that the carrying value of an asset group is recoverable, we review and adjust, as necessary, the estimated useful lives of the assets in the group.

Our long-lived asset impairment and accelerated depreciation charges are disclosed in Note 5, “Closure Costs, Impairment and Other Related Charges,” to our Consolidated Financial Statements.

Judgments and uncertainties involved in the accounting estimates

The calculation of depreciation and amortization of long-lived assets requires us to apply judgment in selecting the remaining useful lives of the assets, which must address both physical and economic considerations. The remaining economic life of a long-lived asset is frequently shorter than its physical life. Estimates of future economic conditions for our long-lived assets and therefore, their remaining useful economic lives, require considerable judgment.

Asset impairment for long-lived assets to be held and used is tested at the lowest asset group level having largely independent cash flows. Determining the asset groups for long-lived assets to be held and used requires management’s judgment.

Asset impairment loss calculations require us to apply judgment in estimating asset group fair values and future cash flows, including periods of operation, projections of product pricing, production levels, product costs, market supply and demand, foreign exchange rates, inflation, projected capital spending and, specifically for fixed assets acquired, assigned useful lives, functional obsolescence, asset condition and discount rates. When performing impairment tests, we estimate the fair values of the assets using management’s best assumptions, which we believe would be consistent with the assumptions that a

hypothetical marketplace participant would use. Estimates and assumptions used in these tests are evaluated and updated as appropriate. The assessment of whether an asset group should be classified as held for sale requires us to apply judgment in estimating the probable timing of the sale, and in testing for impairment loss, judgment is required in estimating the net proceeds from the sale.

As a result of operating income observed, the Company performed an impairment test as of November 30, 2020, on one of its long-lived asset groups. The Company performed a Step 1 test which compares the carrying values of the asset group to its estimated future undiscounted cash flows. The undiscounted cash flows exceeded the carrying value of the asset group by a substantial margin, so no impairment was recognized.

Effect if actual results differ from assumptions

If our estimate of the remaining useful life changes, such a change is accounted for prospectively in our determination of depreciation and amortization. Actual depreciation and amortization charges for an individual asset may therefore be significantly accelerated if the outlook for its remaining useful life is shortened considerably.

A number of judgments were made in the determination of our asset groups. If a different conclusion had been reached for any one of those judgments, it could have resulted in the identification of asset groups different from those we actually identified, and consequently, could result in a different conclusion when comparing the expected undiscounted future cash flows or the fair value to the carrying value of the asset group.

Actual asset impairment losses could vary considerably from estimated impairment losses if actual results are not consistent with the assumptions and judgments used in estimating future cash flows and asset fair values. Assets of facilities that are idled have a greater risk of acceleration in depreciation and amortization or additional impairment.

Business Combination

Description of accounts impacted by the accounting estimates

On February 1, 2020, we acquired from Conifex Timber Inc. the U.S. Sawmill Business, which produces construction-grade dimensional lumber and decking products from locally sourced southern yellow pine for distribution within the U.S.

At Acquisition Date, we recognized fixed assets of \$114 million, amortizable intangible assets of \$21 million, goodwill of \$31 million and other assets, net of other liabilities, of \$7 million.

We account for business combinations using the acquisition method as of the date control is transferred to us. Under this approach, identifiable assets acquired and liabilities assumed are recorded at their respective fair values at the date of acquisition. Any amount of the purchase price paid that is in excess of the estimated fair values of net identifiable assets acquired is recorded in "Goodwill" in our Consolidated Balance Sheets. In determining the estimated fair values of identifiable assets acquired and liabilities assumed in a business combination, we use various recognized valuation methods such as income, cost and market approaches. We utilized both the cost and market approaches to value fixed assets, which consider external transactions and other comparable transactions, estimated replacement and reproduction costs, and estimated useful lives and consideration for physical, functional and economic obsolescence. We utilized the income approach to value intangible assets, which considers the present value of the net cash flows expected to be generated by the intangible assets, and excluding cash flows related to contributory assets. Valuations are performed by management or independent valuation specialists under management's supervision, where appropriate.

Judgments and uncertainties involved in the accounting estimates

The judgments made in determining the estimated fair value assigned to the long-lived assets acquired and goodwill, as well as the estimated useful life of the long-lived assets, could impact the net income of the periods subsequent to the acquisition through depreciation and amortization, and in certain instances through impairment charges, if the asset becomes impaired in the future.

At Acquisition Date, we identified amortizable intangible assets primarily related to customer relationships. In determining the estimated fair value for intangible assets, we used the income approach through a multi-period excess earning method. Estimates that are sensitive to the determination of the fair value of acquired customer intangibles include revenue stream and economic life of each customer relationship, growth or attrition of the existing customers, forecasted revenues and operating expenses, contributory asset charges and discount rates, all of which can have a material impact on the estimated fair values of customer relationship intangible assets.

Other significant judgments include the estimated fair value of fixed assets. We utilized both the cost and the market approaches in the estimation of fair value of fixed assets. Estimates that are sensitive to the determination of the fair value of fixed assets include external transactions and other comparable transactions, estimated replacement and reproduction costs, and estimated useful lives and consideration for physical, functional and economic obsolescence.

We believe that the estimated fair values assigned to the assets acquired and liabilities assumed are based on reasonable assumptions that a marketplace participant would use. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement.

Effect if actual results differ from assumptions

During the measurement period, we have recorded adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Final determination of the estimated fair values of assets acquired or liabilities assumed has been completed and as such, any subsequent adjustments would be recorded in our Consolidated Statements of Comprehensive (loss) income.

SUPPLEMENTAL OBLIGOR GROUP INFORMATION

The following information is presented in accordance with Rule 13-01 of Regulation S-X adopted in 2020, and the public information requirements of Rule 144 promulgated pursuant to the Securities Act of 1933, as amended, in connection to the 2023 Notes issued by Resolute Forest Products Inc. (or, the “*Issuer*”) and fully guaranteed, on a joint and several basis, by all of our existing and subsequently acquired or organized direct or indirect wholly-owned U.S. subsidiaries that guarantee the ABL Credit Facility as further defined below (or, the “*Guarantor Subsidiaries*”) (together, the “*Obligor Group*”). The 2023 Notes are not guaranteed by our foreign subsidiaries (or, the “*Non-Guarantor Subsidiaries*”). The 2023 Notes were redeemed subsequent to December 31, 2020, and are no longer outstanding, see Note 23, “Subsequent Events,” to our Consolidated Financial Statements.

The following summarized financial information of the Obligor Group is presented on a combined basis, with all intercompany transactions between the Issuer and the Guarantor Subsidiaries eliminated and excluding any earnings from and investments in the Non-Guarantor Subsidiaries. Financial information of the Non-Guarantor Subsidiaries is not included.

Summarized financial information for the year ended December 31, 2020 was as follows:

<i>(In millions)</i>	
Sales ⁽¹⁾	\$ 2,542
Operating loss	\$ (116)
Net loss	\$ (126)

⁽¹⁾ Includes \$41 million of sales to the Non-Guarantor Subsidiaries.

Summarized financial information as of December 31, 2020 was as follows:

<i>(In millions)</i>	
Total current assets	\$ 448
Total long-term assets	\$ 958
Total current liabilities ⁽¹⁾	\$ 800
Total long-term liabilities	\$ 969

⁽¹⁾ Includes accounts payable to the Non-Guarantor Subsidiaries of \$676 million.

The 2023 Notes are unsecured and effectively junior to indebtedness under each of the ABL Credit Facility, the Senior Secured Credit Facility, and the Loan Facility, to the extent of the value of the collateral securing each indebtedness and to future secured indebtedness. In addition, the 2023 Notes are structurally subordinated to all existing and future liabilities of our Non-Guarantor Subsidiaries, including the Loan Facility.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to risks associated with fluctuations in foreign currency exchange rates, prices for the products we manufacture, commodity prices, and credit risk on accounts receivable from our customers.

Foreign Currency Exchange Risk

We compete with producers from around the world, particularly North America, Europe, and South America, in most of our product lines, with the exception of wood products and tissue, where we compete primarily with other North American producers. We sell our products mainly in transactions denominated in U.S. dollars, but we also sell in certain local currencies, including the Canadian dollar, the euro, and the pound sterling. Changes in the relative strength or weakness of these currencies, particularly the U.S. dollar, could affect international trade flows in these products. A stronger U.S. dollar might attract imports, thereby increasing product supply and possibly creating downward pressure on prices. On the other hand, a weaker U.S. dollar might encourage U.S. exports but also increase manufacturing costs in Canadian dollars.

We are particularly sensitive to changes in the value of the Canadian dollar versus the U.S. dollar. The actual impact of these changes depends primarily on the proportion of our production and sales that occur in Canada, the proportion of our financial assets and liabilities denominated in Canadian dollars, and the magnitude, direction and duration of changes in the exchange rate. We expect exchange rate fluctuations to continue to impact costs and revenues, but we cannot predict the magnitude or direction of this effect for any period, and there can be no assurance of any future effects. In 2019 and 2020, the Canadian dollar fluctuated between a low of US\$1.27 in December of 2020 and a high of US\$1.45 in March of 2020. Based on operating projections for 2021, if the Canadian dollar strengthens by one cent against the U.S. dollar, we expect that it will decrease our annual operating income by approximately \$16 million, and *vice versa*.

Furthermore, certain monetary assets and liabilities, including a substantial portion of our net pension and OPEB obligations and our net deferred income tax assets, are denominated in Canadian dollars. As a result, our earnings can be subject to the potentially significant effect of foreign exchange gains or losses in respect of these Canadian dollar net monetary items. A fluctuation of the Canadian dollar against the U.S. dollar in any given period would generally cause a foreign exchange gain or loss.

Product Price Risk

Historically, economic and market shifts, fluctuations in capacity, and changes in foreign currency exchange rates have created cyclical changes in prices, sales volume and margins for our products. In general, our products, other than tissue, are commodities that are widely available from other producers; because these products have few distinguishing qualities from producer to producer, competition is based primarily on price, which is determined by supply relative to demand. The overall levels of demand for the products we manufacture, and consequently our sales and profitability, reflect fluctuations in end user demand. The demand for some of our products has weakened significantly over the past decade. For example, over the 10 years ended December 31, 2020, according to industry statistics, North American newsprint demand fell by 69%. This trend, which similarly affects our specialty paper, is expected to continue as a result of developments in non-print media, lower North American newspaper circulation, weaker paper-based advertising, grade substitution and conservation measures taken by publishers and retailers. Without change in capacity, the lower demand in relation to supply can cause downward pressure on price.

In the table below, we show the impact of a \$25 change to the average transaction price per unit of our products, other than tissue, based on our operating configuration as of December 31, 2020. This presentation measures only the impact of pricing and items directly related to price, and assumes that every other factor is held constant.

PRODUCT		Projected change in annualized operating income (\$ millions) based on \$25 change in price per unit
Market pulp	\$ / metric ton	29
Wood products	\$ / thousand board feet	48
Paper	\$ / metric ton	38

Commodity Price Risk

We purchase significant amounts of wood fiber, chemicals, and energy to supply our manufacturing facilities. These raw materials are market-priced commodities and as such, are subject to fluctuations in prices. Increases in the prices of these commodities will tend to reduce our reported earnings and decreases will tend to increase our reported earnings. From time to time, we may enter into contracts aimed at securing a stable source of supply for these commodities. These contracts typically require us to pay the market price at the time of purchase. Thus, under these contracts, we generally remain subject to market fluctuations in commodity prices.

Credit Risk

We are exposed to credit risk on the accounts receivable from our customers. In order to manage our credit risk, we have adopted policies, which include the analysis of the financial position of our customers and the regular review of their credit limits. The credit limits are dynamically reviewed based on fluctuations in the customers' financial results and payment behavior. These customer credit limits are critical inputs in determining the conditions under which credit is extended to customers to reduce exposure to losses. We also subscribe to credit insurance and, in some cases, require bank letters of credit. Our customers are mainly in the business of newspaper publishing, advertising, printing, paper converting, consumer products, as well as lumber wholesale and retail.