# QUARTERLY REPORT 3

FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019

Cascades

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## FORWARD-LOOKING STATEMENTS

The following is the quarterly financial report and Management's Discussion and Analysis ("MD&A") of the operating results and financial position of Cascades Inc. ("Cascades" or "the Corporation") and should be read in conjunction with the Corporation's unaudited condensed interim consolidated financial statements and accompanying notes for the three-month and nine-month periods ended September 30, 2019 and 2018, together with the most recent audited consolidated financial statements. Information contained herein includes any significant developments as at November 7, 2019, the date on which the MD&A was approved by the Corporation's Board of Directors. For additional information, readers are referred to the Corporation's Annual Information Form ("AIF"), which is published separately. Additional information relating to the Corporation is also available on SEDAR at www.sedar.com.

The financial information contained herein, including tabular amounts, is expressed in Canadian dollars, unless otherwise specified, and is prepared in accordance with International Financial Reporting Standards (IFRS), unless otherwise specified. Unless otherwise specified or if required by context, the terms "we," "our" and "us" refer to Cascades Inc. and all of its subsidiaries, joint ventures and associates.

This MD&A is intended to provide readers with information that Management believes is necessary for an understanding of Cascades' current results and to assess the Corporation's future prospects. Consequently, certain statements herein, including statements regarding future results and performance, are forward-looking statements within the meaning of securities legislation, based on current expectations. The accuracy of such statements is subject to a number of risks, uncertainties and assumptions that may cause actual results to differ materially from those projected, including, but not limited to, the effect of general economic conditions, decreases in demand for the Corporation's products, prices and availability of raw materials, changes in relative values of certain currencies, fluctuations in selling prices, and adverse changes in general market and industry conditions. Cascades disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required under applicable securities regulations. This MD&A also includes price indexes, as well as variance and sensitivity analysis intended to provide the reader with a better understanding of the trends with respect to our business activities. These items are based on the best estimates available to the Corporation.

## NEW IFRS STANDARD ADOPTED

The Corporation adopted IFRS 16 *Leases* on January 1, 2019. The new standard requires lessees to recognize a lease liability and a corresponding right-of-use asset at the date at which the leased asset is available for use. Subsequently, lease payments are allocated between the liability and finance cost. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard.

The application of IFRS 16 *Leases* had the following impacts on the January 1, 2019 consolidated balance sheet:

| (in millions of Canadian dollars) | Balance as of December 31, 2018[1] | IFRS 16 Adjustment | January 1, 2019 Adjusted balance |
|---|---|---|---|
| Property, plant and equipment (including right-of-use assets) | 2,505 | 87 | 2,592 |
| Current portion of long-term debt | 55 | 16 | 71 |
| Long-term debt | 1,821 | 83 | 1,904 |
| Deferred income tax liabilities | 200 | (3) | 197 |
| Opening retained earnings | 997 | (9) | 988 |

[1] Including business combination purchase price retrospective adjustment (see Note 5 of the Unaudited Condensed Interim Consolidated Financial Statements fore more details).

The impact of adoption of IFRS16 *Leases* on the 2019 third quarter and year-to-date consolidated statement of earnings is as follows:

| (in millions of Canadian dollars) | For the 3-month period ended September 30, 2019 | For the 9-month period ended September 30, 2019 |
|---|---|---|
| Increase in operating income before depreciation and amortization (OIBD) by segment: | | |
| Containerboard | 2 | 8 |
| Boxboard Europe | 1 | 3 |
| Specialty Products | 2 | 5 |
| Tissue Papers | 1 | 3 |
| Corporate activities | 1 | 3 |
| **Consolidated** | 7 | 22 |
| | | |
| Increase in financing expense | — | 2 |
| Increase in depreciation and amortization | 7 | 20 |

# TO OUR SHAREHOLDERS

## FINANCIAL HIGHLIGHTS

- Sales of $1,264 million
  (compared with $1,275 million in Q2 2019 (-1%) and $1,175 million in Q3 2018 (+8%))
- As reported (including specific items)
  - Operating income of $135 million
    (compared with $82 million in Q2 2019 (+65%) and $78 million in Q3 2018 (+73%))
  - Operating income before depreciation and amortization (OIBD)[1] of $208 million
    (compared with $154 million in Q2 2019 (+35%) and $139 million in Q3 2018 (+50%))
  - Net earnings per share of $0.74
    (compared with $0.33 in Q2 2019 and $0.38 in Q3 2018)
- Adjusted (excluding specific items)[1]
  - Operating income of $88 million
    (compared with $84 million in Q2 2019 (+5%) and $76 million in Q3 2018 (+16%))
  - OIBD of $161 million
    (compared with $156 million in Q2 2019 (+3%) and $137 million in Q3 2018 (+18%))
  - Net earnings per share of $0.30
    (compared with $0.28 in Q2 2019 and $0.40 in Q3 2018)
- Net debt[1] of $2,077 million as at September 30, 2019 (compared with $1,861 million as at June 30, 2019) and net debt to adjusted OIBD ratio[1] at 3.7x.

## FINANCIAL SUMMARY

### SELECTED CONSOLIDATED INFORMATION

| (in millions of Canadian dollars, except per share amounts) | **Q3 2019** | Q2 2019 | Q3 2018 |
|---|---|---|---|
| Sales | **1,264** | 1,275 | 1,175 |
| **As reported** | | | |
| Operating income before depreciation and amortization (OIBD)[1] | **208** | 154 | 139 |
| Operating income | **135** | 82 | 78 |
| Net earnings | **70** | 31 | 36 |
| per share | **$ 0.74** | $ 0.33 | $ 0.38 |
| **Adjusted[1]** | | | |
| Operating income before depreciation and amortization (OIBD) | **161** | 156 | 137 |
| Operating income | **88** | 84 | 76 |
| Net earnings | **28** | 26 | 38 |
| per share | **$ 0.30** | $ 0.28 | $ 0.40 |
| Margin (OIBD) | **12.7%** | 12.2% | 11.7% |

### SEGMENTED OIBD AS REPORTED

| (in millions of Canadian dollars) | **Q3 2019** | Q2 2019 | Q3 2018 |
|---|---|---|---|
| **Packaging Products** | | | |
| Containerboard | **120** | 114 | 116 |
| Boxboard Europe | **25** | 30 | 19 |
| Specialty Products | **12** | 13 | 15 |
| **Tissue Papers** | **76** | 17 | 5 |
| Corporate Activities | **(25)** | (20) | (16) |
| **OIBD as reported** | **208** | 154 | 139 |

*1 Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

### SEGMENTED ADJUSTED OIBD[1]

| (in millions of Canadian dollars) | **Q3 2019** | Q2 2019 | Q3 2018 |
|---|---|---|---|
| **Packaging Products** | | | |
| Containerboard | **118** | 113 | 117 |
| Boxboard Europe | **25** | 30 | 19 |
| Specialty Products | **14** | 13 | 14 |
| **Tissue Papers** | **24** | 18 | 5 |
| Corporate Activities | **(20)** | (18) | (18) |
| **Adjusted OIBD** | **161** | 156 | 137 |

Cascades delivered solid consolidated third quarter 2019 results, as demonstrated by the 24.9% OIBD margin realized by the Containerboard segment. In addition to our improved execution at the operational level, we benefited from favourable raw material pricing and customary seasonal demand levels across our platforms, notwithstanding some softness in Containerboard and European Boxboard end-pricing. The Tissue segment delivered very encouraging year-over-year and sequential financial improvements, with positive raw material costs and selling price levels providing additional support for the benefits being derived from ongoing growth investments and initiatives in this segment.

We concluded the acquisition of the Orchids activities during the third quarter, and subsequently announced, at the end of October, the closure of two tissue converting facilities in the U.S. by March 2020, as part of our strategic repositioning and optimization efforts in the Tissue segment. In a similar vein, we advanced our capital investments and projects across our operations, and continued to align our Specialty Products platform with the Company's longer-term strategic objectives via the sale of our European industrial packaging operations.

MARIO PLOURDE
President and Chief Executive Officer
November 7, 2019

1 *Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

## OUR BUSINESS

Cascades Inc. is a paper and packaging company that produces, converts and sells packaging and tissue products composed primarily of recycled fibres. Established in 1964 in Kingsey Falls, Québec, the Corporation was founded by the Lemaire brothers, who saw the economic and social potential of building a company focused primarily on the sustainable development principles of reusing, recovering and recycling. More than 50 years later, Cascades is a multinational business with close to 100 operating facilities[1] and more than 11,700 employees across Canada, the United States and Europe. The Corporation currently operates four business segments:

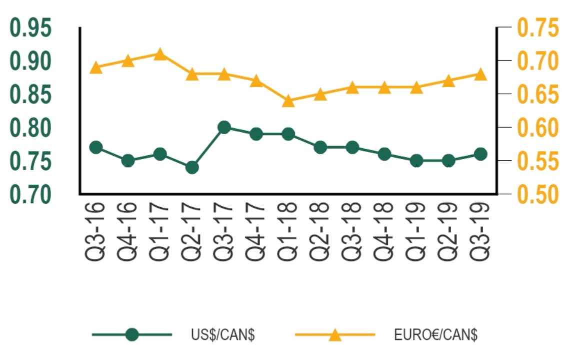
| (Business segments) | Number of Facilities[1] | Q3 2019 Sales[2] (in $M) | Q3 2019 Operating Income Before Depreciation and Amortization (OIBD)[2] (in $M) | Q3 2019 Adjusted OIBD[2,4] (in $M) | Q3 2019 Adjusted OIBD Margin (%) |
|---|---|---|---|---|---|
| **PACKAGING PRODUCTS** | | | | | |
| Containerboard | 26 | 473 | 120 | 118 | 24.9% |
| Boxboard Europe[3] | 7 | 256 | 25 | 25 | 9.8% |
| Specialty Products | 38 | 176 | 12 | 14 | 8.0% |
| **TISSUE PAPERS** | 21 | 387 | 76 | 24 | 6.2% |

## BUSINESS DRIVERS

Cascades' results may be impacted by fluctuations in the following areas:

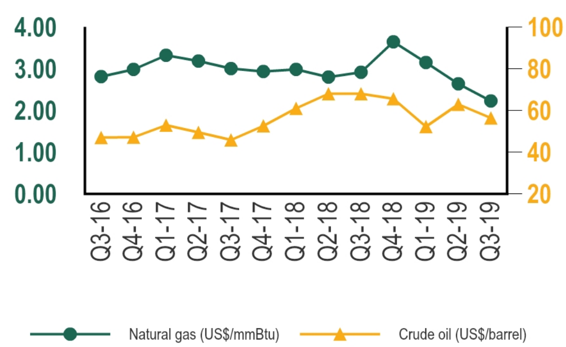
### EXCHANGE RATES

Sequentially, the average value of the Canadian dollar increased by 1% compared to the US dollar and by 2% compared to the euro in the third quarter of 2019. On a year-over-year basis, the average value of the Canadian dollar decreased by 1% compared to the US dollar and increased by 4% compared to the euro.




### ENERGY COSTS

During the quarter, the average price of natural gas decreased by 16% sequentially and by 23% compared to the same period last year. In the case of crude oil, the average price decreased by 10% sequentially, and by 17% year-over-year.




| | 2017 | | | | | 2018 | | | | | **2019** | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | YEAR | Q1 | Q2 | Q3 | Q4 | YEAR | **Q1** | **Q2** | **Q3** | **TOTAL** |
| **US$/CAN$ - Average rate** | $ 0.76 | $ 0.74 | $ 0.80 | $ 0.79 | $ 0.77 | $ 0.79 | $ 0.77 | $ 0.77 | $ 0.76 | $ 0.77 | **$ 0.75** | **$ 0.75** | **$ 0.76** | **$ 0.75** |
| **US$/CAN$ End of period rate** | $ 0.75 | $ 0.77 | $ 0.80 | $ 0.80 | $ 0.80 | $ 0.78 | $ 0.76 | $ 0.77 | $ 0.73 | $ 0.73 | **$ 0.75** | **$ 0.76** | **$ 0.76** | **$ 0.76** |
| **EURO€/CAN$ - Average rate** | $ 0.71 | $ 0.68 | $ 0.68 | $ 0.67 | $ 0.68 | $ 0.64 | $ 0.65 | $ 0.66 | $ 0.66 | $ 0.65 | **$ 0.66** | **$ 0.67** | **$ 0.68** | **$ 0.67** |
| **EURO€/CAN$ End of period rate** | $ 0.70 | $ 0.68 | $ 0.68 | $ 0.66 | $ 0.66 | $ 0.63 | $ 0.65 | $ 0.67 | $ 0.64 | $ 0.64 | **$ 0.67** | **$ 0.67** | **$ 0.69** | **$ 0.69** |
| **Natural Gas Henry Hub - US$/mmBtu** | $ 3.32 | $ 3.18 | $ 3.00 | $ 2.93 | $ 3.11 | $ 2.98 | $ 2.80 | $ 2.91 | $ 3.64 | $ 3.09 | **$ 3.15** | **$ 2.64** | **$ 2.23** | **$ 2.67** |

Source: Bloomberg

1 Including associates and joint ventures and Orchids Paper Products Company facilities acquired on September 13, 2019.
2 Excluding associates and joint ventures not included in consolidated results. Refer to Note 8 of the 2018 audited consolidated financial statements for more information on associates and joint ventures.
3 Via our equity ownership in Reno de Medici S.p.A., a public company traded on the Milan and Madrid stock exchanges.
4 Please refer to the "Supplemental Information on Non-IFRS Measures" section for a complete reconciliation.

## HISTORICAL MARKET PRICES OF MAIN PRODUCTS AND RAW MATERIALS

| | 2017 | | | | | 2018 | | | **2019** | **Q3 2019 vs. Q3 2018** | | **Q3 2019 vs. Q2 2019** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| These indexes should only be used as trend indicators; they may differ from our actual selling prices and purchasing costs. | Year | Q1 | Q2 | Q3 | Q4 | Year | **Q1** | **Q2** | **Q3** | **Change** | **%** | **Change** | **%** |
| **Selling prices (average)** | | | | | | | | | | | | | |
| **PACKAGING PRODUCTS** | | | | | | | | | | | | | |
| **Containerboard (US$/short ton)** | | | | | | | | | | | | | |
| Linerboard 42-lb. unbleached kraft, Eastern US (open market) | 693 | 722 | 755 | 755 | 755 | 747 | **752** | **735** | **725** | **(30)** | **(4)%** | **(10)** | **(1)%** |
| Corrugating medium 26-lb. semichemical, Eastern US (open market) | 592 | 637 | 670 | 670 | 670 | 662 | **650** | **640** | **630** | **(40)** | **(6)%** | **(10)** | **(2)%** |
| **Boxboard Europe (euro/metric ton)** | | | | | | | | | | | | | |
| Recycled white-lined chipboard (WLC) index[1] | 672 | 678 | 673 | 673 | 673 | 674 | **672** | **672** | **672** | **(1)** | **—** | **—** | **—** |
| Virgin coated duplex boxboard (FBB) index[2] | 1,031 | 1,072 | 1,072 | 1,072 | 1,072 | 1,072 | **1,117** | **1,117** | **1,117** | **45** | **4 %** | **—** | **—** |
| **Specialty Products (US$/short ton)** | | | | | | | | | | | | | |
| Uncoated recycled boxboard - 20-pt. bending chip (series B) | 645 | 643 | 680 | 730 | 730 | 696 | **730** | **730** | **730** | **—** | **—** | **—** | **—** |
| **TISSUE PAPERS (US$/short ton)** | | | | | | | | | | | | | |
| Parent rolls, recycled fibres (transaction) | 1,043 | 1,072 | 1,087 | 1,102 | 1,112 | 1,093 | **1,151** | **1,164** | **1,143** | **41** | **4 %** | **(21)** | **(2)%** |
| Parent rolls, virgin fibres (transaction) | 1,323 | 1,366 | 1,388 | 1,404 | 1,422 | 1,395 | **1,441** | **1,444** | **1,420** | **16** | **1 %** | **(24)** | **(2)%** |
| **Raw materials prices (average)** | | | | | | | | | | | | | |
| **RECYCLED PAPER** | | | | | | | | | | | | | |
| **North America (US$/short ton)** | | | | | | | | | | | | | |
| Sorted residential papers, No. 56 (SRP - Northeast average) | 79 | 59 | 31 | 28 | 28 | 36 | **24** | **16** | **10** | **(18)** | **(64)%** | **(6)** | **(38)%** |
| Old corrugated containers, No. 11 (OCC - Northeast average) | 138 | 92 | 71 | 68 | 68 | 74 | **61** | **40** | **33** | **(35)** | **(51)%** | **(7)** | **(18)%** |
| Sorted office papers, No. 37 (SOP - Northeast average) | 169 | 165 | 193 | 210 | 203 | 193 | **183** | **140** | **101** | **(109)** | **(52)%** | **(39)** | **(28)%** |
| **Europe (euro/metric ton)** | | | | | | | | | | | | | |
| Recovered paper index[3] | 142 | 111 | 99 | 103 | 107 | 105 | **96** | **87** | **71** | **(32)** | **(31)%** | **(16)** | **(18)%** |
| **VIRGIN PULP (US$/metric ton)** | | | | | | | | | | | | | |
| Northern bleached softwood kraft, Canada | 1,105 | 1,233 | 1,310 | 1,377 | 1,428 | 1,342 | **1,380** | **1,292** | **1,170** | **(207)** | **(15)%** | **(122)** | **(9)%** |
| Bleached hardwood kraft, mixed, Canada/US | 958 | 1,077 | 1,125 | 1,192 | 1,213 | 1,152 | **1,180** | **1,100** | **970** | **(222)** | **(19)%** | **(130)** | **(12)%** |

Source: RISI and Cascades.

1 The Cascades Recycled White-Lined Chipboard Selling Price Index is based on published indexes and represents an approximation of Cascades' recycled-grade selling prices in Europe. It is weighted by country and has been rebalanced as at January 1, 2018.

2 The Cascades Virgin Coated Duplex Boxboard Selling Price Index is based on published indexes and represents an approximation of Cascades' virgin-grade selling prices in Europe. It is weighted by country and has been rebalanced as at January 1, 2018.

3 The Cascades Recovered Paper Index is based on published indexes and represents an approximation of Cascades' recovered paper purchase prices in Europe. It is weighted by country, based on the recycled fibre supply mix, and has been rebalanced as at January 1, 2018.

# SUPPLEMENTAL INFORMATION ON NON-IFRS MEASURES

## SPECIFIC ITEMS

The Corporation incurs some specific items that adversely or positively affect its operating results. We believe it is useful for readers to be aware of these items, as they provide additional information to measure performance, compare the Corporation's results between periods, and assess operating results and liquidity, notwithstanding these specific items. Management believes these specific items are not necessarily reflective of the Corporation's underlying business operations in measuring and comparing its performance and analyzing future trends. Our definition of specific items may differ from those of other corporations, and some of them may arise in the future and may reduce the Corporation's available cash.

They include, but are not limited to, charges for (reversals of) impairment of assets, restructuring gains or costs, loss on refinancing and repurchase of long-term debt, some deferred tax asset provisions or reversals, premiums paid on long-term debt refinancing, gains or losses on the acquisition or sale of a business unit, gains or losses on the share of results of associates and joint ventures, unrealized gains or losses on derivative financial instruments that do not qualify for hedge accounting, unrealized gains or losses on interest rate swaps, foreign exchange gains or losses on long-term debt and financial instruments, specific items of discontinued operations and other significant items of an unusual, non-cash or non-recurring nature.

## SPECIFIC ITEMS INCLUDED IN OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND NET EARNINGS

The Corporation incurred the following specific items during the first nine months of 2019 and 2018:

### LOSS (GAIN) ON ACQUISITIONS, DISPOSALS AND OTHERS

**2019**
In the third quarter, the Containerboard packaging segment recorded a $2 million gain from the sale of a building and piece of land of a closed plant.

In the third quarter, the Specialty Products segment concluded the sale of its France plant which converts cardboard into packaging for the paper industry and recorded a loss of $1 million.

In the third quarter, the Tissue Papers segment recorded a $52 million gain following the acquisition of Orchids Paper Products Company activities ("Orchids") (please refer to the "Business Highlights" section). The Corporation also incurred, in Corporate Activities, transaction fees totaling $8 million ($4 million in the third quarter) related to the acquisition.

In the second quarter, a $4 million increase in an environmental provision was recorded in Corporate Activities related to a plant closed in a previous year.

In the second quarter, a $5 million gain was recorded in Corporate Activities related to a litigation settlement from a prior-year event.

In the first quarter, the lease on our Bear Island facility in Virginia was terminated by the lessee. As such, the Containerboard segment recorded a gain of $10 million following the reversal of liabilities related to lease incentives to the lessee and to accrued carrying costs.

**2018**
In the first quarter, the Containerboard segment completed the sale of the building and land of its Maspeth, NY plant and recorded a gain of $66 million, net of asset retirement obligations of $2 million.

### IMPAIRMENT CHARGES AND RESTRUCTURING COSTS

**2019**
As a result of the lease termination on our Bear Island facility in the first quarter, as described above, the Containerboard segment recorded a $3 million impairment charge on some assets that will not be used in the future.

In the first quarter, the Specialty products segment recorded $1 million of restructuring costs and a $1 million impairment charge in the third quarter stemming from the closure of its Trois-Rivières, Québec, plant manufacturing felt backing for flooring.

In the first quarter, the Tissue Papers segment recorded a $1 million impairment charge on some equipment, in addition to $4 million of restructuring costs related to the forthcoming closure of two tissue paper machines in Ontario and changes in the segment's senior management. In the second quarter, the segment added $1 million of restructuring costs related to the closure.

**2018**
In the third quarter, the Containerboard Packaging segment incurred a $1 million charge related to severances for the forthcoming closure of two sheet plants in Ontario announced during the quarter.

In the third quarter, the Specialty Products segment recorded a gain of $1 million from the dismantling of a building of a plant closed in the previous years.

**DERIVATIVE FINANCIAL INSTRUMENTS**
In the first nine months of 2019, the Corporation recorded an unrealized gain of $4 million (loss of $1 million in the third quarter), compared to an unrealized loss of $5 million (gain of $2 million in the third quarter) in the same period of 2018, on certain derivative financial instruments not designated for hedge accounting.

**INTEREST RATE SWAPS AND OPTION FAIR VALUE REVALUATION**
In the first nine months of 2019, the Corporation recorded in line item "Interest expense on employee future benefits and other liabilities" an unrealized loss of $1 million (loss of $7 million in the third quarter) on the fair value revaluation of a one-time option granted to White Birch to purchase an interest of up to 10% in the Bear Island containerboard mill project.

In the first nine months of 2018, the Corporation recorded an unrealized gain on interest rate swaps of $1 million (nil in the third quarter), which is included in financing expense.

**FOREIGN EXCHANGE GAIN ON LONG-TERM DEBT AND FINANCIAL INSTRUMENTS**
In the first nine months of 2019, the Corporation recorded a gain of $7 million (nil in the third quarter) on its US$-denominated debt and related financial instruments, compared to a gain of $4 million (gain of $3 million in the third quarter) in 2018. This is composed of a gain of $4 million in the first nine months of 2019 (gain of $1 million in the third quarter), compared to a gain of $4 million in the same period of 2018 (gain of $1 million in the third quarter), on our US$-denominated long-term debt, net of our net investment hedges in the US and Europe as well as forward exchange contracts designated as hedging instruments, if any. It also includes a gain of $3 million in the first nine months of 2019 (loss of $1 million in the third quarter), compared to nil in the same period of 2018 (gain of $2 million in the third quarter), on foreign exchange forward contracts not designated for hedge accounting.

**FAIR VALUE REVALUATION GAIN ON INVESTMENTS**

**2018**
The Boxboard Europe segment completed the acquisition of PAC Service S.p.A. and recorded a revaluation gain of $5 million in the first quarter on its previously held interest. This item is presented in line item "Fair value revaluation gain on investments" in the consolidated statement of earnings.

**PROVISION FOR INCOME TAXES**

**2018**
In the third quarter, the Corporation reassessed the probability of recovering unrealized capital losses which resulted in the derecognition of tax assets totalling $6 million.

## RECONCILIATION OF NON-IFRS MEASURES

To provide more information for evaluating the Corporation's performance, the financial information included in this analysis contains certain data that are not performance measures under IFRS ("non-IFRS measures"), which are also calculated on an adjusted basis to exclude specific items. We believe that providing certain key performance measures and non-IFRS measures is useful to both Management and investors, as they provide additional information to measure the performance and financial position of the Corporation. This also increases the transparency and clarity of the financial information. The following non-IFRS measures are used in our financial disclosures:

- Operating income before depreciation and amortization (OIBD): Used to assess operating performance and the contribution of each segment when excluding depreciation and amortization. OIBD is widely used by investors as a measure of a corporation's ability to incur and service debt and as an evaluation metric.
- Adjusted OIBD: Used to assess operating performance and the contribution of each segment on a comparable basis.
- Adjusted operating income: Used to assess operating performance of each segment on a comparable basis.
- Adjusted net earnings: Used to assess the Corporation's consolidated financial performance on a comparable basis.
- Adjusted free cash flow: Used to assess the Corporation's capacity to generate cash flows to meet financial obligations and/or discretionary items such as share repurchase, dividend increase and strategic investments.
- Net debt to adjusted OIBD ratio: Used to measure the Corporation's credit performance and evaluate financial leverage.
- Net debt to adjusted OIBD ratio on a pro-forma basis: Used to measure the Corporation's credit performance and evaluate the financial leverage on a comparable basis, including significant business acquisitions and excluding significant business disposals, if any.

Non-IFRS measures are mainly derived from the consolidated financial statements, but do not have meanings prescribed by IFRS. These measures have limitations as an analytical tool and should not be considered on their own or as a substitute for an analysis of our results as reported under IFRS. In addition, our definitions of non-IFRS measures may differ from those of other corporations. Any such modification or reformulation may be significant.

The reconciliation of operating income (loss) to OIBD, to adjusted operating income (loss) and to adjusted OIBD by business segment is as follows:

| | For the 3-month period ended September 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| (in millions of Canadian dollars) | **Containerboard** | **Boxboard Europe** | **Specialty Products** | **Tissue Papers** | **Corporate Activities** | **Consolidated** |
| **Operating income (loss)** | **91** | **14** | **4** | **61** | **(35)** | **135** |
| Depreciation and amortization | **29** | **11** | **8** | **15** | **10** | **73** |
| **Operating income (loss) before depreciation and amortization** | **120** | **25** | **12** | **76** | **(25)** | **208** |
| Specific items: | | | | | | |
| Loss (gain) on acquisitions, disposals and others | **(2)** | **—** | **1** | **(52)** | **4** | **(49)** |
| Impairment charges | **—** | **—** | **1** | **—** | **—** | **1** |
| Unrealized loss on derivative financial instruments | **—** | **—** | **—** | **—** | **1** | **1** |
| | **(2)** | **—** | **2** | **(52)** | **5** | **(47)** |
| **Adjusted operating income (loss) before depreciation and amortization** | **118** | **25** | **14** | **24** | **(20)** | **161** |
| **Adjusted operating income (loss)** | **89** | **14** | **6** | **9** | **(30)** | **88** |

| | For the 3-month period ended September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| (in millions of Canadian dollars) | Containerboard | Boxboard Europe | Specialty Products | Tissue Papers | Corporate Activities | Consolidated |
| **Operating income (loss)** | 94 | 10 | 9 | (11) | (24) | 78 |
| Depreciation and amortization | 22 | 9 | 6 | 16 | 8 | 61 |
| **Operating income (loss) before depreciation and amortization** | 116 | 19 | 15 | 5 | (16) | 139 |
| Specific items: | | | | | | |
| Restructuring costs (gain) | 1 | — | (1) | — | — | — |
| Unrealized gain on derivative financial instruments | — | — | — | — | (2) | (2) |
| | 1 | — | (1) | — | (2) | (2) |
| **Adjusted operating income (loss) before depreciation and amortization** | 117 | 19 | 14 | 5 | (18) | 137 |
| **Adjusted operating income (loss)** | 95 | 10 | 8 | (11) | (26) | 76 |

| (in millions of Canadian dollars) | Containerboard | Boxboard Europe | Specialty Products | Tissue Papers | Corporate Activities | Consolidated |
|---|---|---|---|---|---|---|
| | **For the 9-month period ended September 30, 2019** | | | | | |
| **Operating income (loss)** | **259** | **51** | **13** | **54** | **(88)** | **289** |
| Depreciation and amortization | **86** | **33** | **23** | **43** | **27** | **212** |
| **Operating income (loss) before depreciation and amortization** | **345** | **84** | **36** | **97** | **(61)** | **501** |
| Specific items: | | | | | | |
| Loss (gain) on acquisitions, disposals and others | **(12)** | **—** | **1** | **(52)** | **7** | **(56)** |
| Impairment charges | **3** | **—** | **1** | **1** | **—** | **5** |
| Restructuring costs | **—** | **—** | **1** | **5** | **—** | **6** |
| Unrealized gain on derivative financial instruments | **(1)** | **—** | **—** | **—** | **(3)** | **(4)** |
| | **(10)** | **—** | **3** | **(46)** | **4** | **(49)** |
| **Adjusted operating income (loss) before depreciation and amortization** | **335** | **84** | **39** | **51** | **(57)** | **452** |
| **Adjusted operating income (loss)** | **249** | **51** | **16** | **8** | **(84)** | **240** |

| (in millions of Canadian dollars) | Containerboard | Boxboard Europe | Specialty Products | Tissue Papers | Corporate Activities | Consolidated |
|---|---|---|---|---|---|---|
| | For the 9-month period ended September 30, 2018 | | | | | |
| **Operating income (loss)** | 297 | 51 | 15 | (22) | (78) | 263 |
| Depreciation and amortization | 62 | 26 | 16 | 47 | 23 | 174 |
| **Operating income (loss) before depreciation and amortization** | 359 | 77 | 31 | 25 | (55) | 437 |
| Specific items: | | | | | | |
| Gain on acquisitions, disposals and others | (66) | — | — | — | — | (66) |
| Restructuring costs (gain) | 1 | — | (1) | — | — | — |
| Unrealized loss on derivative financial instruments | 5 | — | — | — | — | 5 |
| | (60) | — | (1) | — | — | (61) |
| **Adjusted operating income (loss) before depreciation and amortization** | 299 | 77 | 30 | 25 | (55) | 376 |
| **Adjusted operating income (loss)** | 237 | 51 | 14 | (22) | (78) | 202 |

Net earnings, as per IFRS, are reconciled below with operating income, adjusted operating income and adjusted operating income before depreciation and amortization:

| | **For the 3-month periods ended September 30,** | | **For the 9-month periods ended September 30,** | |
|---|---|---|---|---|
| (in millions of Canadian dollars) | **2019** | 2018 | **2019** | 2018 |
| **Net earnings attributable to Shareholders for the period** | **70** | 36 | **125** | 124 |
| Net earnings attributable to non-controlling interests | **7** | 7 | **25** | 28 |
| Provision for income taxes | **12** | 17 | **30** | 57 |
| Fair value revaluation gain on investments | **—** | — | **—** | (5) |
| Share of results of associates and joint ventures | **(2)** | (3) | **(6)** | (7) |
| Foreign exchange gain on long-term debt and financial instruments | **—** | (3) | **(7)** | (4) |
| Financing expense and interest expense on employee future benefits and other liabilities | **48** | 24 | **122** | 70 |
| **Operating income** | **135** | 78 | **289** | 263 |
| Specific items: | | | | |
| Gain on acquisitions, disposals and others | **(49)** | — | **(56)** | (66) |
| Impairment charges | **1** | — | **5** | — |
| Restructuring costs | **—** | — | **6** | — |
| Unrealized loss (gain) on derivative financial instruments | **1** | (2) | **(4)** | 5 |
| | **(47)** | (2) | **(49)** | (61) |
| **Adjusted operating income** | **88** | 76 | **240** | 202 |
| Depreciation and amortization | **73** | 61 | **212** | 174 |
| **Adjusted operating income before depreciation and amortization** | **161** | 137 | **452** | 376 |

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

The following table reconciles net earnings and net earnings per share, as per IFRS, with adjusted net earnings and adjusted net earnings per share:

| | **NET EARNINGS** | | | | **NET EARNINGS PER SHARE**[1] | | | |
|---|---|---|---|---|---|---|---|---|
| | **For the 3-month periods ended September 30,** | | **For the 9-month periods ended September 30,** | | **For the 3-month periods ended September 30,** | | **For the 9-month periods ended September 30,** | |
| (in millions of Canadian dollars, except amount per share) | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| **As per IFRS** | **70** | 36 | **125** | 124 | **$ 0.74** | $ 0.38 | **$ 1.33** | $ 1.31 |
| Specific items: | | | | | | | | |
| Gain on acquisitions, disposals and others | **(49)** | — | **(56)** | (66) | **$ (0.53)** | — | **$ (0.61)** | $ (0.51) |
| Impairment charges | **1** | — | **5** | — | **$ 0.01** | — | **$ 0.04** | — |
| Restructuring costs | **—** | — | **6** | — | **—** | — | **$ 0.05** | — |
| Unrealized loss (gain) on derivative financial instruments | **1** | (2) | **(4)** | 5 | **$ 0.01** | $ (0.02) | **$ (0.03)** | $ 0.04 |
| Unrealized loss (gain) on interest rate swaps and option fair value revaluation | **7** | — | **1** | (1) | **$ 0.07** | — | **$ 0.01** | $ (0.01) |
| Foreign exchange gain on long-term debt and financial instruments | **—** | (3) | **(7)** | (4) | **—** | $ (0.02) | **$ (0.07)** | $ (0.03) |
| Fair value revaluation gain on investments | **—** | — | **—** | (5) | **—** | — | **—** | $ (0.03) |
| Tax effect on specific items, other tax adjustments and attributable to non-controlling interests[1] | **(2)** | 7 | **(3)** | 26 | **—** | $ 0.06 | **—** | $ 0.06 |
| | **(42)** | 2 | **(58)** | (45) | **$ (0.44)** | $ 0.02 | **$ (0.61)** | $ (0.48) |
| **Adjusted** | **28** | 38 | **67** | 79 | **$ 0.30** | $ 0.40 | **$ 0.72** | $ 0.83 |

*1 Specific amounts per share are calculated on an after-tax basis and are net of the portion attributable to non-controlling interests. Per share amounts in line item "Tax effect on specific items, other tax adjustments and attributable to non-controlling interests" only include the effect of tax adjustments.*

The following table reconciles cash flow from operating activities with operating income and operating income before depreciation and amortization:

| | **For the 3-month periods ended September 30,** | | **For the 9-month periods ended September 30,** | |
|---|---|---|---|---|
| (in millions of Canadian dollars) | **2019** | 2018 | **2019** | 2018 |
| **Cash flow from operating activities** | **157** | 134 | **297** | 288 |
| Changes in non-cash working capital components | **(53)** | (42) | **13** | (16) |
| Depreciation and amortization | **(73)** | (61) | **(212)** | (174) |
| Net income taxes paid | **12** | 6 | **14** | 4 |
| Net financing expense paid | **42** | 39 | **101** | 94 |
| Gain on acquisitions, disposals and others | **53** | — | **59** | 66 |
| Impairment charges and restructuring costs | **(1)** | — | **(6)** | — |
| Unrealized gain (loss) on derivative financial instruments | **(1)** | 2 | **4** | (5) |
| Dividend received, employee future benefits and others | **(1)** | — | **19** | 6 |
| **Operating income** | **135** | 78 | **289** | 263 |
| Depreciation and amortization | **73** | 61 | **212** | 174 |
| **Operating income before depreciation and amortization** | **208** | 139 | **501** | 437 |

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

The following table reconciles cash flow from operating activities with cash flow from operating activities (excluding changes in non-cash working capital components) and adjusted cash flow from operating activities. It also reconciles adjusted cash flow from operating activities to adjusted free cash flow, which is also calculated on a per share basis:

| | For the 3-month periods ended September 30, | | For the 9-month periods ended September 30, | |
|---|---|---|---|---|
| (in millions of Canadian dollars, except amount per share or as otherwise mentioned) | **2019** | 2018 | **2019** | 2018 |
| **Cash flow from operating activities** | **157** | 134 | **297** | 288 |
| Changes in non-cash working capital components | **(53)** | (42) | **13** | (16) |
| **Cash flow from operating activities (excluding changes in non-cash working capital components)** | **104** | 92 | **310** | 272 |
| Specific items, net of current income taxes if applicable: | **4** | — | **8** | — |
| **Adjusted cash flow from operating activities** | **108** | 92 | **318** | 272 |
| Capital expenditures, other assets[1] and assets right-of-use payments, net of disposals of $81 million in Q1 2018 | **(58)** | (129) | **(198)** | (210) |
| Dividends paid to the Corporation's Shareholders and to non-controlling interests | **(12)** | (5) | **(29)** | (23) |
| **Adjusted free cash flow** | **38** | (42) | **91** | 39 |
| **Adjusted free cash flow per share** | **$ 0.40** | $ (0.44) | **$ 0.97** | $ 0.41 |
| **Weighted average basic number of shares outstanding** | **93,860,367** | 94,469,465 | **93,886,909** | 94,704,999 |

*1 Excluding increase in investments*

The following table reconciles total debt and net debt with the ratio of net debt to adjusted operating income before depreciation and amortization (adjusted OIBD):

| (in millions of Canadian dollars) | **September 30, 2019** | December 31, 2018 |
|---|---|---|
| Long-term debt | **2,114** | 1,821 |
| Current portion of long-term debt | **87** | 55 |
| Bank loans and advances | **14** | 16 |
| **Total debt** | **2,215** | 1,892 |
| Less: Cash and cash equivalents | **138** | 123 |
| **Net debt** | **2,077** | 1,769 |
| Adjusted OIBD (last twelve months) | **565** | 489 |
| **Net debt / Adjusted OIBD ratio** | **3.7** | 3.6 |

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

# MANAGEMENT'S DISCUSSION & ANALYSIS

## FINANCIAL OVERVIEW - 2018

Results for 2018 reflected strong sales levels in the Containerboard Packaging, Tissue Papers and European Boxboard segments and consolidated sales totaled $4,649 million in 2018, compared to $4,321 million in 2017. Business acquisitions in the Boxboard Europe and Specialty Products segments and improvements in both sales mix and selling price in all segments had a positive impact on sales. Excluding acquisitions, volumes were below prior-year levels in all three packaging businesses. However, these were offset to a large degree by a notable volume increase generated by the Tissue segment. While a more favourable exchange rate contributed to stronger sales for Europe Boxboard, the Specialty Products' recovery sub-segment generated lower sales as a result of the decrease in brown grade recycled fibre costs.

Operating income before depreciation and amortization (OIBD) reflected strong results in both the Containerboard Packaging and European Boxboard business segments. This was offset by lower results from the Tissue Papers segment, where performance was negatively impacted by elevated costs for virgin pulp and recycled white paper grades, newly added market capacity, and higher logistics and subcontracting costs, in addition to production inefficiencies in some units. Results in the Specialty Products segment were below prior-year levels largely due to the negative impact of lower brown recycled fibre pricing on the performance of the recovery sub-segment, in addition to higher production costs. Finally, Corporate Activities cost levels decreased year-over-year as efforts in 2018 were migrated toward optimizing the ERP and business process initiatives that were implemented in 2017.

## FINANCIAL OVERVIEW - 2019

Results for the first nine months of 2019 reflect a record sales level driven by 2018 fourth quarter acquisitions and higher average selling prices from all North American segments. Lower brown recycled fibres costs, which benefited the performance of our Containerboard and Boxboard Europe segments as well as the packaging activities within the Specialty product segment, also had a positive impact on results. These benefits were only partially offset by the corresponding lower results generated by our recovery and recycling activities as a result of the lower recycled fibre costs.  Additionally, results from the Tissue Papers segment continue to improve as raw material costs have started to come down in recent months. The performance of this segment is supported by selling price increases, a favourable sales mix, and by our initiatives focused on reducing costs and improving operational efficiencies. The recent acquisition of Orchids activities will also contribute positively to the future operating financial performance of this segment. However, volumes were lower for Tissue Papers and Containerboard segments.

For the 3-month period ended September 30, 2019, sales increased by $89 million, or 8%, to reach $1,264 million, compared with $1,175 million in the same period of 2018. The Corporation recorded an operating income before depreciation and amortization of $208 million during the period, compared with $139 million in the same period of 2018. On an adjusted basis[1], operating income before depreciation and amortization stood at $161 million, compared with $137 million last year.

For the 3-month period ended September 30, 2019, the Corporation posted net earnings of $70 million, or $0.74 per share, compared with net earnings of $36 million, or $0.38 per share, in the same period of 2018. On an adjusted basis[1], the Corporation generated net earnings of $28 million in the third quarter of 2019, or $0.30 per share, compared with net earnings of $38 million, or $0.40 per share, in the same period of 2018.

For the 9-month period ended September 30, 2019, sales increased by $316 million, or 9%, to reach $3,769 million, compared with $3,453 million in the same period of 2018. The Corporation recorded an operating income before depreciation and amortization of $501 million during the period, compared with $437 million in the same period of 2018. On an adjusted basis[1], operating income before depreciation and amortization stood at $452 million, compared with $376 million last year.

For the 9-month period ended September 30, 2019, the Corporation posted net earnings of $125 million, or $1.33 per share, compared with net earnings of $124 million, or $1.31 per share, in the same period of 2018. On an adjusted basis[1], the Corporation generated net earnings of $67 million in the first nine months of 2019, or $0.72 per share, compared with net earnings of $79 million, or $0.83 per share, in the same period of 2018.

*1 Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

# KEY PERFORMANCE INDICATORS

We use several key performance indicators to monitor our action plan and analyze the progress we are making toward achieving our long-term objectives. These include the following:

| | | | | | 2017 | | | | | 2018[9] | | | | **2019** | **LTM**[8] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | TOTAL | Q1 | Q2 | Q3 | Q4 | TOTAL | **Q1** | **Q2** | **Q3** | **TOTAL** | |
| **OPERATIONAL** | | | | | | | | | | | | | | | |
| **Total shipments (in '000 s.t.)**[1] | | | | | | | | | | | | | | | |
| Packaging Products | | | | | | | | | | | | | | | |
| Containerboard | 285 | 375 | 369 | 372 | 1,401 | 352 | 385 | 370 | 368 | 1,475 | **342** | **363** | **377** | **1,082** | **1,450** |
| Boxboard Europe | 296 | 283 | 271 | 270 | 1,120 | 298 | 276 | 259 | 292 | 1,125 | **333** | **331** | **321** | **985** | **1,277** |
| | 581 | 658 | 640 | 642 | 2,521 | 650 | 661 | 629 | 660 | 2,600 | **675** | **694** | **698** | **2,067** | **2,727** |
| Tissue Papers | 139 | 151 | 157 | 146 | 593 | 149 | 163 | 164 | 149 | 625 | **146** | **155** | **161** | **462** | **611** |
| **Total** | 720 | 809 | 797 | 788 | 3,114 | 799 | 824 | 793 | 809 | 3,225 | **821** | **849** | **859** | **2,529** | **3,338** |
| **Integration rate**[2] | | | | | | | | | | | | | | | |
| Containerboard | 51% | 51% | 55% | 52% | 53% | 56% | 56% | 56% | 58% | 57% | **59%** | **59%** | **58%** | **58%** | **59%** |
| Tissue Papers | 71% | 69% | 67% | 66% | 68% | 67% | 68% | 71% | 75% | 70% | **76%** | **77%** | **78%** | **77%** | **77%** |
| **Manufacturing capacity utilization rate**[3] | | | | | | | | | | | | | | | |
| Packaging Products | | | | | | | | | | | | | | | |
| Containerboard | 96% | 94% | 91% | 92% | 93% | 89% | 100% | 92% | 93% | 93% | **88%** | **91%** | **94%** | **91%** | **92%** |
| Boxboard Europe | 102% | 98% | 94% | 93% | 97% | 103% | 96% | 90% | 90% | 94% | **96%** | **95%** | **93%** | **95%** | **94%** |
| Tissue Papers | 86% | 89% | 90% | 84% | 87% | 88% | 92% | 92% | 87% | 90% | **87%** | **92%** | **91%** | **90%** | **89%** |
| **Consolidated total** | 96% | 95% | 92% | 91% | 93% | 94% | 97% | 91% | 90% | 93% | **91%** | **93%** | **93%** | **92%** | **92%** |
| **FINANCIAL** | | | | | | | | | | | | | | | |
| **Return on assets**[4] | | | | | | | | | | | | | | | |
| Packaging Products | | | | | | | | | | | | | | | |
| Containerboard | 16% | 14% | 13% | 14% | 14% | 14% | 16% | 18% | 20% | 20% | **20%** | **20%** | **20%** | **20%** | |
| Boxboard Europe | 10% | 10% | 11% | 12% | 12% | 14% | 15% | 16% | 15% | 15% | **15%** | **14%** | **14%** | **14%** | |
| Specialty Products | 20% | 21% | 19% | 18% | 18% | 15% | 12% | 11% | 10% | 10% | **11%** | **11%** | **11%** | **11%** | |
| Tissue Papers | 15% | 14% | 12% | 10% | 10% | 9% | 6% | 4% | 2% | 2% | **1%** | **2%** | **4%** | **4%** | |
| **Consolidated return on assets** | 9.8% | 9.1% | 8.9% | 9.2% | 9.2% | 9.5% | 10.2% | 10.7% | 10.6% | 10.6% | **11.0%** | **11.2%** | **11.3%** | **11.3%** | |
| **Return on capital employed**[5] | 4.5% | 3.9% | 3.7% | 3.7% | 3.7% | 3.9% | 4.4% | 4.7% | 4.6% | 4.6% | **4.8%** | **4.9%** | **4.9%** | **4.9%** | |
| **Working capital**[6] | | | | | | | | | | | | | | | |
| In millions of $, at end of period | 385 | 429 | 474 | 442 | 442 | 513 | 506 | 464 | 455 | 455 | **500** | **525** | **502** | **502** | |
| As a percentage of sales[7] | 10.2% | 9.9% | 9.9% | 10.1% | 10.1% | 10.5% | 10.8% | 10.7% | 10.6% | 10.6% | **10.4%** | **10.3%** | **10.3%** | **10.3%** | |

1 *Shipments do not take into account the elimination of business sector inter-segment shipments. Starting in Q2 2017, including Greenpac. Shipments from our Specialty Products segment are not presented as they use different units of measure.*

2 *Defined as: Percentage of manufacturing shipments transferred to our converting operations. Starting in Q2 2017, including Greenpac and its sales to its partners which are mostly under contractual agreements.*

3 *Defined as: Manufacturing internal and external shipments/practical capacity. Excluding Specialty Products segment manufacturing activities. Starting in Q2 2017, including Greenpac.*

4 *Return on assets is a non-IFRS measure defined as the last twelve months' ("LTM") adjusted OIBD/LTM quarterly average of total assets less cash and cash equivalents. Including Greenpac on a consolidated basis starting in Q2 2017.*

5 *Return on capital employed is a non-IFRS measure and is defined as the after-tax (30%) amount of the LTM adjusted operating income, including our share of core associates and joint ventures, divided by the LTM quarterly average of capital employed. Capital employed is defined as the quarterly total average assets less trade and other payables and cash and cash equivalents. Including Greenpac as an associate up to Q1 2017 and on a consolidated basis starting in Q2 2017.*

6 *Working capital includes accounts receivable (excluding the short-term portion of other assets) plus inventories less trade and other payables. Starting in Q2 2017, including Greenpac.*

7 *Percentage of sales = Average LTM working capital/LTM sales. It includes or excludes significant business acquisitions and disposals. Starting in Q2 2017, including Greenpac.*

8 *LTM (last twelve months).*

9 *2018 fourth quarter results have been adjusted to reflect retrospective adjustments of purchase price allocation. Please refer to Note 5 of the unaudited condensed interim consolidated financial statements for more details.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

## HISTORICAL FINANCIAL INFORMATION

| | | | | | 2017 | | | | | 2018[3] | | | | 2019 | LTM[4] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in millions of Canadian dollars, unless otherwise noted) | Q1 | Q2[2] | Q3 | Q4 | TOTAL | Q1 | Q2 | Q3 | Q4 | TOTAL | Q1 | Q2 | Q3 | TOTAL | |
| **Sales** | | | | | | | | | | | | | | | |
| Packaging Products | | | | | | | | | | | | | | | |
| Containerboard | 346 | 428 | 438 | 440 | 1,652 | 421 | 475 | 472 | 472 | 1,840 | 441 | 462 | 473 | 1,376 | 1,848 |
| Boxboard Europe | 211 | 213 | 202 | 212 | 838 | 246 | 232 | 210 | 245 | 933 | 279 | 270 | 256 | 805 | 1,050 |
| Specialty Products | 173 | 188 | 181 | 161 | 703 | 159 | 164 | 164 | 172 | 659 | 196 | 193 | 176 | 565 | 737 |
| Inter-segment sales | (22) | (27) | (32) | (24) | (105) | (24) | (23) | (21) | (21) | (89) | (22) | (15) | (16) | (53) | (74) |
| | 708 | 802 | 789 | 789 | 3,088 | 802 | 848 | 825 | 868 | 3,343 | 894 | 910 | 889 | 2,693 | 3,561 |
| Tissue Papers | 306 | 338 | 323 | 301 | 1,268 | 305 | 343 | 364 | 340 | 1,352 | 348 | 377 | 387 | 1,112 | 1,452 |
| Inter-segment sales and Corporate Activities | (8) | (10) | (9) | (8) | (35) | (9) | (11) | (14) | (12) | (46) | (12) | (12) | (12) | (36) | (48) |
| **Total** | 1,006 | 1,130 | 1,103 | 1,082 | 4,321 | 1,098 | 1,180 | 1,175 | 1,196 | 4,649 | 1,230 | 1,275 | 1,264 | 3,769 | 4,965 |
| **Operating income (loss)** | | | | | | | | | | | | | | | |
| Packaging Products | | | | | | | | | | | | | | | |
| Containerboard | 33 | 30 | 50 | 51 | 164 | 121 | 82 | 94 | 84 | 381 | 84 | 84 | 91 | 259 | 343 |
| Boxboard Europe | 5 | 13 | 5 | 11 | 34 | 19 | 22 | 10 | 9 | 60 | 18 | 19 | 14 | 51 | 60 |
| Specialty Products | 13 | 14 | 10 | 9 | 46 | 2 | 4 | 9 | 5 | 20 | 3 | 6 | 4 | 13 | 18 |
| | 51 | 57 | 65 | 71 | 244 | 142 | 108 | 113 | 98 | 461 | 105 | 109 | 109 | 323 | 421 |
| Tissue Papers | 8 | 17 | 9 | (6) | 28 | (2) | (9) | (11) | (100) | (122) | (8) | 1 | 61 | 54 | (46) |
| Corporate Activities | (28) | (26) | (23) | (20) | (97) | (28) | (26) | (24) | (35) | (113) | (25) | (28) | (35) | (88) | (123) |
| **Total** | 31 | 48 | 51 | 45 | 175 | 112 | 73 | 78 | (37) | 226 | 72 | 82 | 135 | 289 | 252 |
| **Adjusted OIBD[1]** | | | | | | | | | | | | | | | |
| Packaging Products | | | | | | | | | | | | | | | |
| Containerboard | 45 | 56 | 72 | 74 | 247 | 77 | 105 | 117 | 111 | 410 | 104 | 113 | 118 | 335 | 446 |
| Boxboard Europe | 14 | 21 | 14 | 19 | 68 | 28 | 30 | 19 | 20 | 97 | 29 | 30 | 25 | 84 | 104 |
| Specialty Products | 18 | 20 | 15 | 14 | 67 | 7 | 9 | 14 | 10 | 40 | 12 | 13 | 14 | 39 | 49 |
| | 77 | 97 | 101 | 107 | 382 | 112 | 144 | 150 | 141 | 547 | 145 | 156 | 157 | 458 | 599 |
| Tissue Papers | 23 | 35 | 24 | 12 | 94 | 13 | 7 | 5 | (8) | 17 | 9 | 18 | 24 | 51 | 43 |
| Corporate Activities | (25) | (25) | (19) | (14) | (83) | (20) | (17) | (18) | (20) | (75) | (19) | (18) | (20) | (57) | (77) |
| **Total** | 75 | 107 | 106 | 105 | 393 | 105 | 134 | 137 | 113 | 489 | 135 | 156 | 161 | 452 | 565 |
| **Net earnings (loss)** | 161 | 256 | 33 | 57 | 507 | 61 | 27 | 36 | (68) | 56 | 24 | 31 | 70 | 125 | 57 |
| Adjusted[1] | 12 | 24 | 19 | 13 | 68 | 12 | 29 | 38 | — | 79 | 13 | 26 | 28 | 67 | 67 |
| **Net earnings (loss) per share (in dollars)** | | | | | | | | | | | | | | | |
| Basic | $ 1.70 | $ 2.70 | $ 0.35 | $ 0.60 | $ 5.35 | $ 0.65 | $ 0.28 | $ 0.38 | $ (0.72) | $ 0.59 | $ 0.26 | $ 0.33 | $ 0.74 | $ 1.33 | $ 0.61 |
| Diluted | $ 1.66 | $ 2.61 | $ 0.34 | $ 0.58 | $ 5.19 | $ 0.63 | $ 0.27 | $ 0.37 | $ (0.72) | $ 0.55 | $ 0.26 | $ 0.32 | $ 0.73 | $ 1.31 | $ 0.59 |
| Basic, adjusted[1] | $ 0.13 | $ 0.25 | $ 0.20 | $ 0.14 | $ 0.72 | $ 0.13 | $ 0.30 | $ 0.40 | — | $ 0.83 | $ 0.14 | $ 0.28 | $ 0.30 | $ 0.72 | $ 0.72 |
| **Cash flow from operating activities (excluding changes in non-cash working capital components)** | 33 | 89 | 61 | 77 | 260 | 69 | 111 | 92 | 89 | 361 | 82 | 124 | 104 | 310 | 399 |
| **Net debt[1]** | 1,617 | 1,780 | 1,469 | 1,522 | 1,522 | 1,534 | 1,586 | 1,573 | 1,769 | 1,769 | 1,878 | 1,861 | 2,077 | 2,077 | |

1 *Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

2 *Including Greenpac on a consolidated basis starting in Q2 2017. The purchase price allocation of Greenpac was finalized during the third quarter of 2017. The preliminary estimated deemed consideration of $371 million was revised to $304 million. This change impacted the calculation of the gain on the deemed disposal of the previously held interest and goodwill allocated in the purchase price determination for an amount of $67 million. Adjustments to the preliminary purchase price allocation were recorded retrospectively to the acquisition date as required by IFRS 3. Net earnings per share disclosed in the second quarter were consequently adjusted to $2.70 per share from $3.41 per share.*

3 *2018 fourth quarter results have been adjusted to reflect retrospective adjustments of purchase price allocation. Please refer to Note 5 of the unaudited condensed interim consolidated financial statements for more details.*

4 *Last twelve months*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

# BUSINESS HIGHLIGHTS

From time to time, the Corporation enters into transactions to optimize its asset base and streamline its cost structure. The following transactions should be taken into consideration when reviewing the overall and segmented analysis of the Corporation's 2019 and 2018 results.

## BUSINESS START-UP, ACQUISITION, DISPOSAL AND CLOSURE

### CONTAINERBOARD PACKAGING

- On August 28, 2018, the Corporation announced plans to close two corrugated sheet plants located in Barrie and Peterborough, Ontario, Canada, as part of its ongoing efforts to reorganize and optimize its corrugated packaging platform in Ontario. The two plants were closed on November 30, 2018.

- In May 2018, the Corporation started operating its new containerboard converting plant located in Piscataway, NJ, USA. The facility is ramping up as planned while we continue the consolidation of our packaging activities in the northeastern United States.

### BOXBOARD EUROPE

- On October 31, 2018, the Corporation's subsidiary, Reno de Medici, announced the acquisition of Barcelona Cartonboard S.A.U., a Spanish company ranked seventh in Europe for coated cartonboard production.

### SPECIALTY PRODUCTS

- On September 30, 2019, the Corporation concluded the sale of its two France facilities which convert cardboard into packaging for the paper industry.

- On March 27, 2019, the Corporation announced that it would close its plant that manufactures felt backing for flooring, located in Trois-Rivières, Québec. The closure occurred in early July 2019.

- On December 6, 2018, the Corporation acquired the Urban Forest Products and Clarion Packaging plants, respectively located in Brook, Indiana, and Clarion, Iowa, two of the top three egg-producing states in the US. This will allow us to double our production capacity of ecological packaging manufactured in moulded pulp. The Corporation also acquired a majority interest in Falcon Packaging, a leader in the distribution of egg packaging.

### TISSUE PAPERS

- On September 13, 2019, the Corporation announced the completion of the previously announced acquisition of Orchids activities. The assets include the Barnwell, South Carolina and Pryor, Oklahoma operations, as well as certain other assets, including amended supply and other commercial arrangements with Fabrica de Papel San Francisco, S.A. de C.V. ("Fabrica"), based in Mexicali, Mexico, and certain of its affiliates (see "Liquidity and Capital Resources" section for more details).

- On February 28, 2019, the Corporation announced the definitive closure of its tissue paper machines located in Whitby and Scarborough, Ontario. The leases for these two plants expired on August 27, 2019 and will not be renewed. Production ended during the second quarter.

## SIGNIFICANT FACTS AND DEVELOPMENTS

**2019**

On October 30, 2019, the Corporation announced the closure of its Waterford, New York and Kingman, Arizona tissue converting facilities. The combined total volume of 9 million cases of tissue products will be transferred to other Tissue Papers facilities with available capacity that is attributable to both ongoing investments in our asset base and the recent acquisition of Orchids activities (see Note 5 for more details of the Unaudited Condensed Interim Consolidated Financial Statements).

On August 9, 2019, the Corporation announced the increase of the quarterly dividend from $0.04 to $0.08 per share. This step reflected the Corporation's strong asset base and financial fundamentals.

On May 31, 2019, the Corporation entered into an agreement with its lenders to extend and amend its existing $750 million revolving credit facility. The amendment extends the term of the facility to July 2023. The financial conditions remain unchanged.

**2018**

On December 21, 2018, the Corporation announced that it had increased its authorized credit facility to approximately CAN$1 billion to incorporate the addition of a US$175 million seven-year term loan. The term loan provides the Corporation with increased financial flexibility and will reduce financing costs.

On July 26, 2018, the Corporation announced the acquisition of the White Birch Bear Island manufacturing facility in Virginia, USA for a cash consideration of US$34 million ($45 million). The newsprint paper machine presently located on the site will be reconfigured to produce high-quality recycled lightweight linerboard and medium for the North American market, subject to the approval of the board of directors. The new machine is expected to have an annual production capacity of 400,000 tons. Additional details of the project will be provided once the project plans have been finalized and approved.

On January 31, 2018, the Corporation completed the sale of the building and land of its Maspeth plant in New York, U.S. for US$69 million ($86 million), net of transaction fees.

# FINANCIAL RESULTS FOR THE 3-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

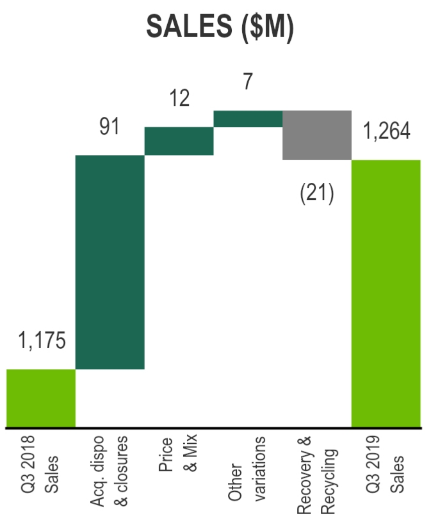
## SALES

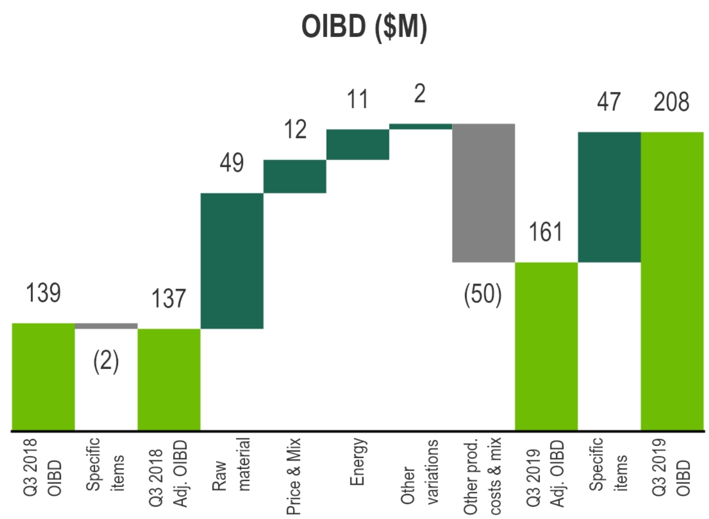
Sales increased by $89 million, or 8%, to $1,264 million in the third quarter of 2019, compared with $1,175 million in the same period of 2018. This reflects business acquisitions during the period and in the fourth quarter of 2018 and higher sales in the Tissue Papers segment due to selling price increases and a favourable mix of product sold. However, on a same plant basis, slightly lower volumes in the Tissue Papers segment and lower selling prices in the Containerboard and Boxboard Europe segments had a negative impact on sales. The 1% average depreciation of the Canadian dollar compared with the US dollar benefited sales levels during the quarter, but the effect was more than counterbalanced by the 4% appreciation of the Canadian dollar compared with the euro. Recovery and Recycling activities generated lower sales compared to last year as a result of the decrease in recycled fibre prices.

## OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBD)

The Corporation generated an OIBD of $208 million in the third quarter of 2019, compared with $139 million in the same period of 2018, an increase of $69 million. Specific items[1] recorded during the period explain $45 million of the increase. Excluding specific items, the $24 million adjusted OIBD increase is mostly explained by lower raw material costs, higher sales, business acquisitions during the period and in the fourth quarter of 2018, and lower energy costs. On the other hand, lower contribution from the Recovery and Recycling activities had a negative impact on OIBD. The Tissue Papers segment benefited from a favourable mix of products sold as a higher proportion of converted products was sold. Although converted products incur more cost on a per ton basis, the net impact on OIBD is higher than for parent rolls.

Adjusted OIBD[1] was $161 million in the third quarter of 2019, compared with $137 million in the same period of 2018. The main variances in sales and operating income before depreciation and amortization in the third quarter of 2019, compared with the same period of 2018, are shown below:




| | |
|---|---|
| **Adjusted OIBD** | *Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.* |
| **Raw materials (OIBD)** | *The impacts of these estimated costs are based on production costs per unit shipped externally or inter-segment, which are affected by yield, product mix changes, inbound freight costs and purchase and transfer prices. In addition to market pulp and recycled fibre, these costs include purchases of external boards and parent rolls for the converting sector, and other raw materials such as plastic and wood chips.* |
| **F/X CAN$ (OIBD)** | *The estimated impact of the exchange rate is based on the Corporation's Canadian export sales less purchases, denominated in US$, that are impacted by exchange rate fluctuations and by the translation of our non-Canadian subsidiaries OIBD into CAN$. It also includes the impact of exchange rate fluctuations on the Corporation's Canadian units in currency other than the CAN$ working capital items and cash positions, as well as our hedging transactions. It excludes indirect sensitivity (please refer to the "Sensitivity Table" section for further details).* |
| **Other production costs and mix (OIBD)** | *These costs include the impact of variable and fixed costs based on production costs per unit shipped externally, which are affected by downtime, efficiency and product mix changes.* |
| **Recovery and Recycling activities (Sales and OIBD)** | *While this sub-segment is integrated within the other segments of the Corporation, any variation in the results of Recovery and Recycling of the Specialty Products segment are presented separately and on a global basis in the charts.* |

The analysis of variances in segment operating income before depreciation and amortization appears within each business segment review (please refer to the "Business Segment Review" section for more details).

*[1] Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

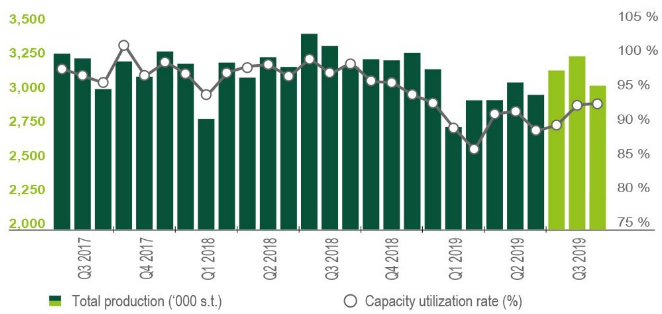
On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

# PACKAGING PRODUCTS - CONTAINERBOARD

## Our Industry

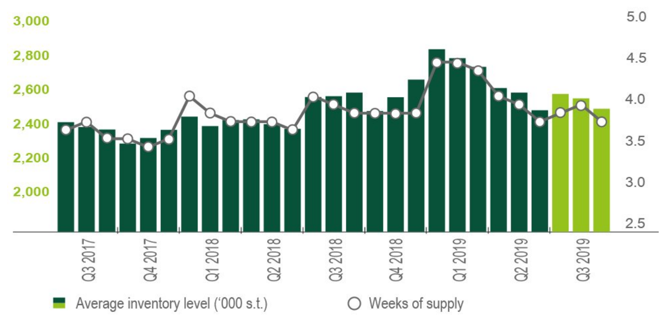
### US containerboard industry production and capacity utilization rate [1]

Total US containerboard production amounted to 9.4 million short tons in the third quarter of 2019, a sequential increase of 5% and a year-over-year decrease of 5%. The industry registered an average capacity utilization rate of 92% during the quarter.




### US containerboard inventories at box plants and mills [2]

The average inventory level decreased by 1% both sequentially and year-over-year during the third quarter of 2019. Inventory levels stood at approximately 2.5 million short tons at the end of September, representing 3.8 weeks of supply.

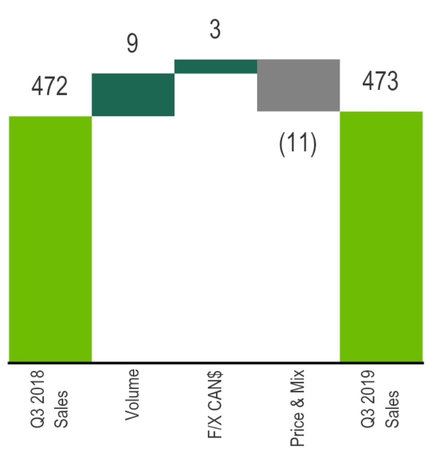



*1 Source: RISI*
*2 Source: Fibre Box Association*

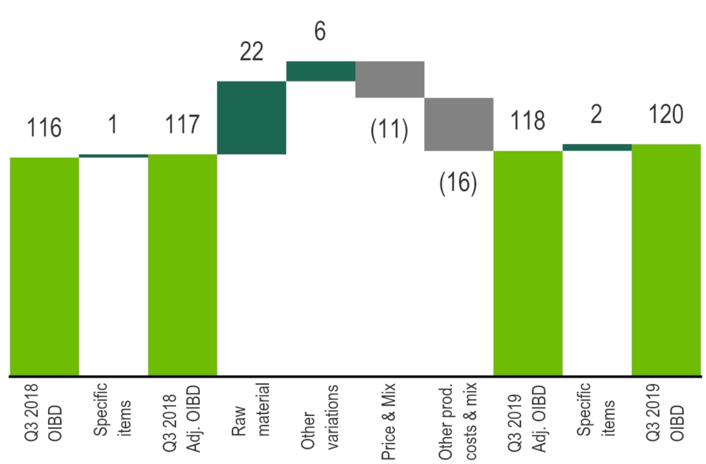
## Our Performance

The main variances in sales and operating income before depreciation and amortization for the Containerboard Packaging segment in the third quarter of 2019, compared with the same period of 2018, are shown below:

### SALES ($M)




### OIBD ($M)




*For definitions of certain sales and operating income before depreciation and amortization (OIBD) variation categories, please refer to the "Financial results for the 3-month periods ended September 30, 2019 and 2018" section for more details.*

*The Corporation incurred certain specific items in the third quarters of 2019 and 2018 that adversely or positively affected its operating results. Please refer to the "Supplemental Information for Non-IFRS Measures" section for reconciliations and details.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

| | Q3 2018 | Q3 2019 | Change in % |
|---|---|---|---|
| Shipments[2] ('000 s.t.) | 370 | 377 | 2% |
| Average Selling Price (CAN$/unit) | 1,278 | 1,254 | -2% |
| Sales ($M) | 472 | 473 | — |
| OIBD[1] ($M) (as reported) | 116 | 120 | 3% |
| % of sales | 25% | 25% | |
| (adjusted)[1] | 117 | 118 | 1% |
| % of sales | 25% | 25% | |
| Operating income ($M) (as reported) | 94 | 91 | -3% |
| (adjusted)[1] | 95 | 89 | -6% |

1 *Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

2 *Shipments do not take into account the elimination of business sector inter-segment shipments. Including 3.4 billion square feet in the third quarter of 2019 compared to 3.2 billion square feet in the same period of 2018.*

3 *Including sales to other partners in Greenpac.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

Shipments increased by 7,000 s.t., or 2%, in the third quarter of 2019. This reflects the 6% increase in the converting sub-sector, which outperformed the 2% increase in the Canadian market and the 1% increase in the US market. For our containerboard mills, shipments decreased by 1%, while the manufacturing capacity utilization rate increased by 3%. This was driven by a higher integration rate of 58% in the current period, compared to 56% in the same quarter last year and lower market demand. Including sales to associates[3], the integration rate was 71% during the period, down from 72% last year.

The average Canadian dollar selling price decreased 7% year-over-year for parent rolls. This was partially offset by a 1% increase in converted products, and the 1% average depreciation of the Canadian dollar compared to the US dollar.

Sales increased by $1 million, year-over-year. The higher volume highlighted above added $9 million to sales, while the Canadian dollar depreciation and the favourable mix of products sold added $3 million and $2 million to sales, respectively. Combined, these benefits more than offset the $13 million negative from a lower averaged selling price during the current period.

Operating income before depreciation and amortization (OIBD) increased by $4 million, or 3% during the third quarter of 2019 compared to the same period of 2018. The increase is attributable to lower costs of brown recycled fibre grades, which added $22 million and higher volume, which had a positive impact of $4 million. The favourable foreign exchange rate contributed an additional $2 million to OIBD. These were partly offset by a lower average selling price, which decreased OIBD by $11 million. In addition, higher operational costs, specifically repair and maintenance, labour, warehousing and chemical costs, subtracted $18 million from OIBD while freight costs were $2 million lower year-over-year.

The segment incurred some specific items[1] in the third quarters of 2019 and 2018 that affected OIBD. Adjusted OIBD[1] was $118 million in the third quarter of 2019, compared to $117 million in the same period of 2018.

## PACKAGING PRODUCTS - BOXBOARD EUROPE

# Our Industry

**European industry order inflow of coated boxboard [1]**

In Europe, order inflows of white-lined chipboard (WLC) totaled approximately 760,000 tonnes in the third quarter of 2019, a 7% decrease sequentially and a 3% increase year-over-year. In European countries where our Boxboard Europe segment is active, WLC prices remained stable both sequentially and compared with the same period last year. The folding boxboard (FBB) industry recorded order inflows of approximately 574,000 tonnes during the third quarter, representing a decrease of 5% sequentially and an increase of 7% year-over-year. FBB prices remained stable sequentially but increased 4% on a year-over-year basis.

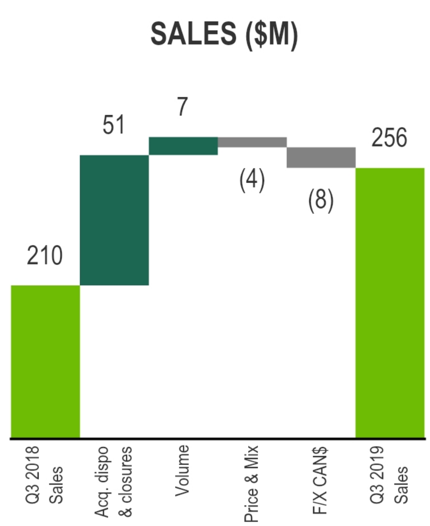
**Coated recycled boxboard industry's order inflow from Europe**
(White-lined chipboard (WLC) - 5-week weekly moving average)

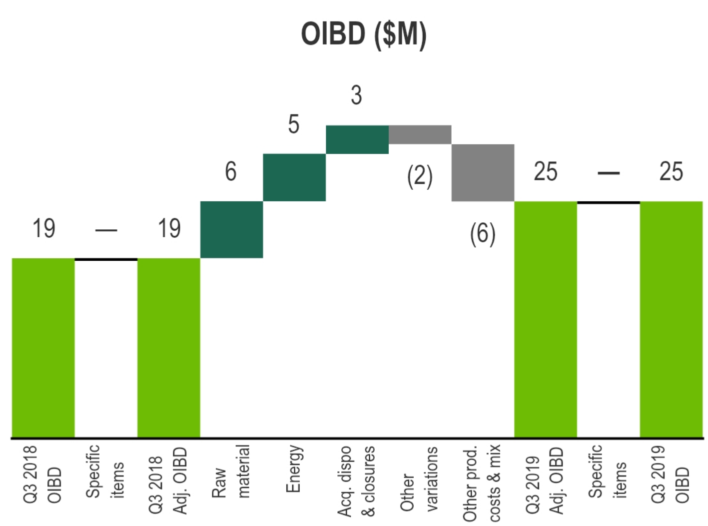

**Coated virgin boxboard industry's order inflow from Europe**
(Folding boxboard (FBB) - 5-week weekly moving average)


*1 Source: CEPI Cartonboard*

# Our Performance

The main variances in sales and operating income before depreciation and amortization for the Boxboard Europe segment in the third quarter of 2019, compared with the same period of 2018, are shown below:




*For definitions of certain sales and operating income before depreciation and amortization (OIBD) variation categories, please refer to the "Financial results for the 3-month periods ended September 30, 2019 and 2018" section for more details.*

*The Corporation incurred certain specific items in the third quarters of 2019 and 2018 that adversely or positively affected its operating results. Please refer to the "Supplemental Information for Non-IFRS Measures" section for reconciliations and details.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

| | Q3 2018 | Q3 2019 | Change in % |
|---|---|---|---|
| **Shipments[2] ('000 s.t.)** | 259 | 321 | 24% |
| **Average Selling Price[3]** (CAN$/unit) | 809 | 755 | -7% |
| (euro€/unit) | 532 | 514 | -3% |
| **Sales ($M)** | 210 | 256 | 22% |
| **OIBD[1] ($M)** (as reported) | 19 | 25 | 32% |
| % of sales | 9% | 10% | |
| (adjusted)[1] | 19 | 25 | 32% |
| % of sales | 9% | 10% | |
| **Operating income ($M)** (as reported) | 10 | 14 | 40% |
| (adjusted)[1] | 10 | 14 | 40% |

*1 Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

*2 Shipments do not take into account the elimination of business sector inter-segment shipments.*

*3 Average selling price is a weighted average of virgin, recycled and converted boxboard shipments.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

External recycled boxboard shipments increased by 62,000 s.t., or 28%, in the third quarter of 2019 compared to the same period of 2018. The acquisition of Barcelona Cartonboard (please refer to the "Business Highlights" section for more details) accounts for most of this increase, adding 53,000 s.t. in the current period. Shipments of virgin boxboard remained stable.

The average selling price decreased year-over-year in both euros and Canadian dollars. This reflects the 4% average year-over-year appreciation of the Canadian dollar compared to the euro, the higher portion of recycled products sold following the acquisition of Barcelona Cartonboard at the end of 2018, price decreases due to market softness and a less favourable geographical mix of products sold. Compared to the prior year period, the average selling price of recycled boxboard in the third quarter of 2019 decreased by €13, or 3%, while the average selling price of virgin boxboard activities increased by €14, or 2%.

The $46 million increase in sales compared to the prior year reflects the acquisition of Barcelona Cartonboard (please refer to the "Business Highlights" section for more details), which contributed $51 million. Conversely, the 4% average year-over-year appreciation of the Canadian dollar compared to the euro and the lower average selling price on a same plant basis decreased sales by $8 million and $4 million, respectively. Higher volumes on a same plant basis had a positive impact of $7 million.

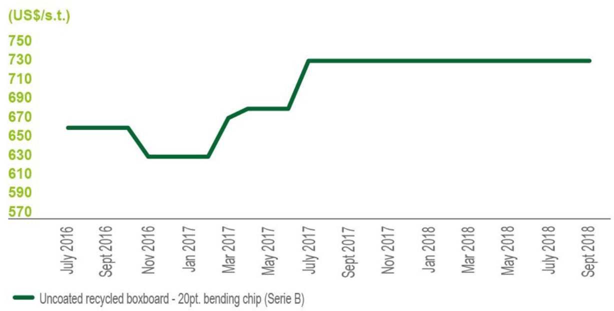
Operating income before depreciation and amortization (OIBD) increased by $6 million year-over-year. The $4 million impact of the lower average selling price on a same plant basis was offset by the business acquisition of Barcelona Cartonboard and the lower raw material costs, which added $3 million and $6 million, respectively. Higher production and freight costs subtracted $6 million from OIBD. On the other hand, lower energy costs added $5 million, including $2 million of energy credits.

## PACKAGING PRODUCTS - SPECIALTY PRODUCTS

# Our Industry

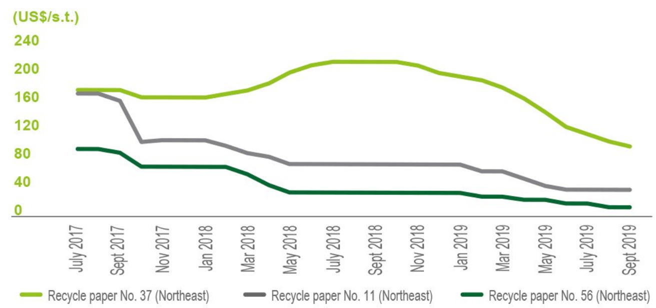
**Reference prices - uncoated recycled boxboard [1]**

The reference price for uncoated recycled boxboard averaged US$730 per short ton in the third quarter of 2019, which is stable both year-over-year and compared with the last quarter.




**Reference prices - fibre costs in North America [1]**

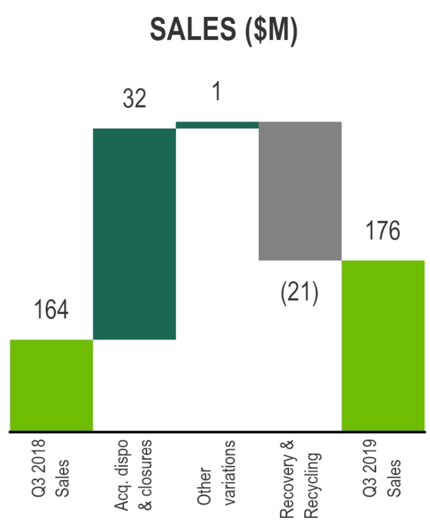
The index price for white grade recycled paper No. 37 (sorted office papers) decreased by 28% sequentially and by 52% year-over-year during the third quarter of 2019. The index price for brown grade recycled paper No. 11 (old corrugated containers) fell by 17% and 51% sequentially and compared with the same period last year, respectively, due to the Chinese restrictions on recycled paper import permits. Index prices for recycled paper No. 56 (sorted residential papers) decreased 41% compared to the previous quarter and 65% year-over-year.

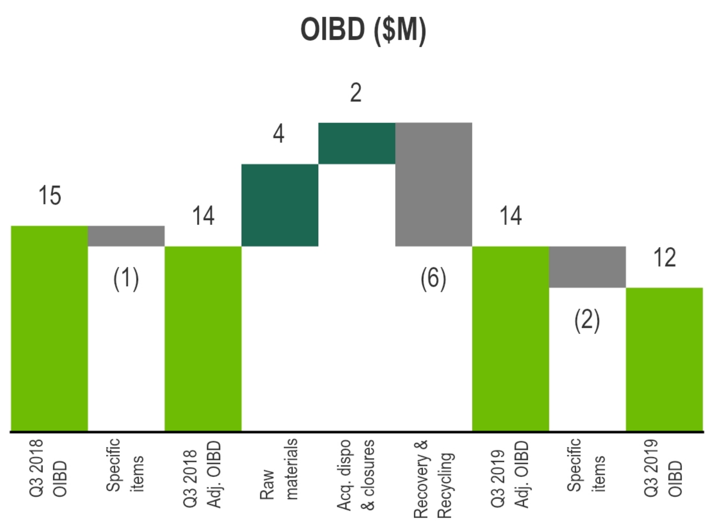



1 *Source: RISI*

# Our Performance

The main variances in sales and operating income before depreciation and amortization for the Specialty Products segment in the third quarter of 2019, compared to the same period of 2018, are shown below:




*For definitions of certain sales and operating income before depreciation and amortization (OIBD) variation categories, please refer to the "Financial results for the 3-month periods ended September 30, 2019 and 2018" section for more details.*

*The Corporation incurred certain specific items in the third quarters of 2019 and 2018 that adversely or positively affected its operating results. Please refer to the "Supplemental Information for Non-IFRS Measures" section for reconciliations and details.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

| | Q3 2018 | Q3 2019 | Change in % |
|---|---|---|---|
| **Sales ($M)** | 164 | 176 | 7% |
| **OIBD[1] ($M)** (as reported) | 15 | 12 | -20% |
| % of sales | 9% | 7% | |
| (adjusted)[1] | 14 | 14 | — |
| % of sales | 9% | 8% | |
| **Operating income ($M)** (as reported) | 9 | 4 | -56% |
| (adjusted)[1] | 8 | 6 | -25% |

1 *Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

2 *Recovery and Recycling activities: Given the level of integration of this sub-segment within the other segments of the Corporation, variances in results are presented excluding the impact of this segment. The variations of this segment are presented separately on a global basis.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

The higher third quarter shipments reflect the business acquisition completed at the end of 2018 and increased activities in our industrial packaging sub-sector. Offsetting this were lower shipments in the plastic operations and slightly lower shipments in our moulded pulp activities following a fire in September.

Sales increased by $12 million, or 7%, compared to the prior year period. This was mainly due to the $35 million contribution from a business acquisition, partly offset by $3 million related to the closure of our vinyl backing operations. Higher volume in the Industrial Packaging sub-sector also contributed $2 million to the increase. These were partially offset by the $21 million negative impact of lower recycled paper prices on Recovery and Recycling activities[2] and the $2 million impact due to lower volume in the Consumer Product Packaging sub-sector.

Operating income before depreciation and amortization (OIBD) decreased by $3 million in the third quarter of 2019. Lower realized spreads in our Recovery and Recycling activities[2] reduced OIBD by $6 million and higher operating costs decreased OIBD by $1 million. These were offset by higher realized spreads in almost all sub-sectors, and the favourable impact of 2018 fourth quarter business acquisition, which added $5 million and $2 million, respectively.

The segment incurred some specific items[1] in the third quarters of 2019 and 2018 that affected OIBD. Adjusted OIBD[1] was stable at $14 million year-over-year.

The tables below show sales and adjusted OIBD of this segment for Recovery and Recycling and packaging activities separately. The adjusted OIBD margin for the packaging activities stood at 13.8% in the third quarter of 2019 compared to 12.2% in the same period of 2018.

Specialty products segment sales are attributable to sub-segments as follows (in $M):

| | 2017 | Q1-18 | Q2-18 | Q3-18 | Q4-18 | 2018 | **Q1-19** | **Q2-19** | **Q3-19** |
|---|---|---|---|---|---|---|---|---|---|
| Packaging | 339 | 85 | 87 | 90 | 95 | 357 | **129** | **135** | **123** |
| Recovery & Recycling | 366 | 75 | 77 | 75 | 77 | 304 | **68** | **58** | **54** |
| Inter-segment eliminations | (2) | (1) | — | (1) | — | (2) | **(1)** | **—** | **(1)** |
| Total | **703** | **159** | **164** | **164** | **172** | **659** | **196** | **193** | **176** |

Specialty products segment adjusted OIBD is attributable to sub-segments as follows (in $M):

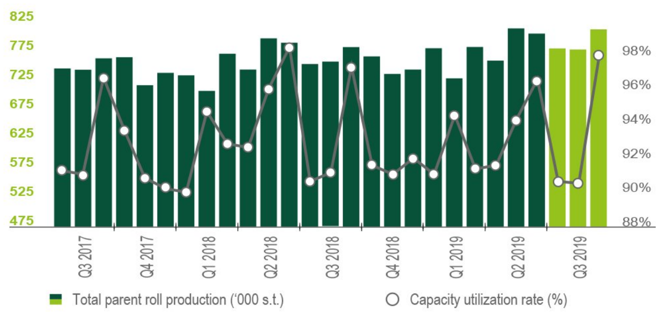
| | 2017 | Q1-18 | Q2-18 | Q3-18 | Q4-18 | 2018 | **Q1-19** | **Q2-19** | **Q3-19** |
|---|---|---|---|---|---|---|---|---|---|
| Packaging | 34 | 7 | 7 | 11 | 7 | 32 | **14** | **15** | **17** |
| Recovery & Recycling | 33 | — | 2 | 3 | 3 | 8 | **(2)** | **(2)** | **(3)** |
| Total | **67** | **7** | **9** | **14** | **10** | 40 | **12** | **13** | **14** |

# TISSUE PAPERS

## Our Industry

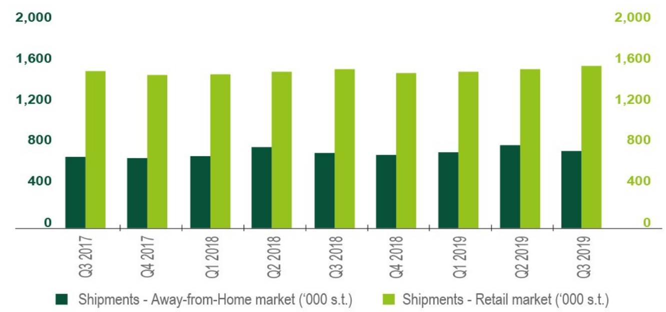
**US tissue paper industry production (parent rolls) and capacity utilization rate [1]**

During the third quarter of 2019, parent roll production amounted to 2.3 million tons, stable sequentially and up by 3% compared with the same period last year. The average capacity utilization rate for the quarter stood at 93%, down 1% sequentially and stable year-over-year.




**US tissue paper industry converted product shipments [1]**

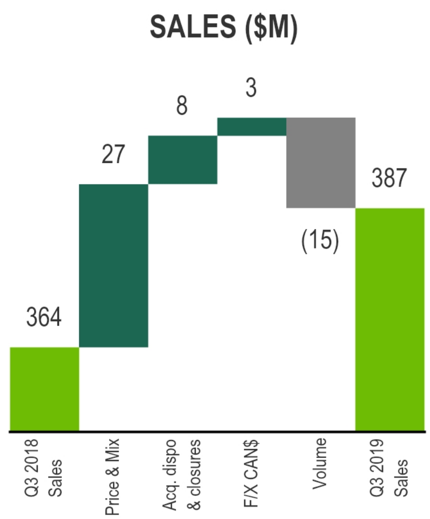
Shipments in the Away-from-Home market decreased 7% sequentially and increased by 3% year-over-year in the third quarter. Shipments in the Retail market rose by 2% compared with the previous quarter and to the same period of 2018.

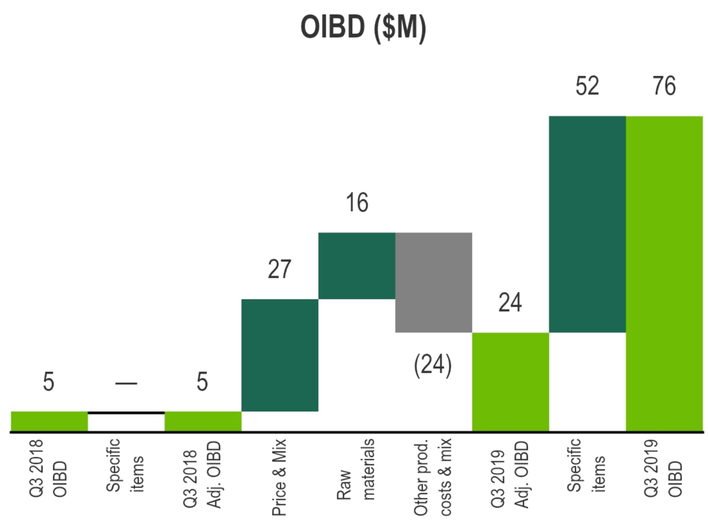



1 Source: RISI

## Our Performance

The main variances in sales and operating income before depreciation and amortization for the Tissue Papers segment in the third quarter of 2019, compared to the same period of 2018, are shown below:




*For definitions of certain sales and operating income before depreciation and amortization (OIBD) variation categories, please refer to the "Financial results for the 3-month periods ended September 30, 2019 and 2018" section for more details.*

*The Corporation incurred certain specific items in the third quarters of 2019 and 2018 that adversely or positively affected its operating results. Please refer to the "Supplemental Information for Non-IFRS Measures" section for reconciliations and details.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

| | Q3 2018 | Q3 2019 | Change in % |
|---|---|---|---|
| Shipments[2] ('000 s.t.) | 164 | 161 | -2% |
| Average Selling Price (CAN$/unit) | 2,223 | 2,410 | 8% |
| Sales ($M) | 364 | 387 | 6% |
| OIBD[1] ($M) (as reported) | 5 | 76 | 1,420% |
| % of sales | 1% | 20% | |
| (adjusted)[1] | 5 | 24 | 380% |
| % of sales | 1% | 6% | |
| Operating income (loss) ($M) (as reported) | (11) | 61 | 655% |
| (adjusted)[1] | (11) | 9 | 182% |

1 *Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*
2 *Shipments do not take into account the elimination of business sector inter-segment shipments.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

External manufacturing shipments decreased by 13,000 s.t. (excluding Orchids acquisition), or 29%, year-over-year in the third quarter of 2019. This was mainly due to a higher integration rate of 78% in the third quarter of 2019, with the better quality produced, compared to 71% for the same period last year. External converting shipments increased by 7,000 s.t. (excluding Orchids acquisition), or 6%, compared to the same period of 2018, mainly driven by new volume with key strategic customers. The acquisition of Orchids added 3,000 s.t. at the end of the quarter.

The 8% increase in the average Canadian dollar selling price is attributable to price increases in all markets, a higher proportion of converted products shipped in the current period, and the 1% average depreciation of the Canadian dollar compared to the US dollar.

The 6% increase in sales compared to the third quarter of 2018 was largely driven by the impact of higher selling prices and a favourable sales mix of parent rolls to converted products, which combined added $27 million to sales. The recent acquisition of Orchids in September (see "Business Highlights" section for more details), provided $8 million of additional sales in the quarter.

The year-over-year increase in operating income before depreciation and amortization (OIBD) is mainly due to the $52 million gain recorded following the acquisition of Orchids, and to lower recycled and virgin paper costs, which added $16 million. Production efficiency improvements also benefited results. Higher selling prices and a favourable mix of products sold, as explained above, also added $27 million. These were offset by higher production costs, largely related to outsourcing that was mainly due to an increase in market share. The higher mix of converted products shipped also increased the average production costs, but are sold at a higher selling price and have a higher contribution to OIBD on a per ton basis compared to parent rolls. Combined, the other production costs decreased OIBD by $24 million

The acquisition of Orchids, which closed on September 13, 2019, will accelerate the modernization of the Tissue platform and improve geographic positioning and supply chain logistics. Planning for the conversion of the Barnwell paper machine to produce conventional paper has begun, and currently outsourced volume is presently being transferred internally to fill the unused capacity of these assets.

The Oregon converting activities are generating positive trends in terms of sales and OIBD, but have still not attained the targeted level. In 2018, operational difficulties at the St. Helens mill negatively impacted the ramp-up of the Oregon converting plant, as these facilities are highly integrated. The ongoing action plan in place at the St. Helens paper mill in Oregon is delivering quarterly improvements and we expect to see additional positive impacts in the coming quarters.

The segment incurred some specific items[1] in the third quarter of 2019 that affected OIBD. Adjusted OIBD[1] reached $24 million in the third quarter of 2019, compared to $5 million in the same period of 2018.

# CORPORATE ACTIVITIES

Corporate Activities incurred some specific items[1] in the third quarter of 2019 that affected OIBD. Adjusted OIBD[1] was a loss of $20 million in the third quarter of 2019, compared with a loss of $18 million in the same period of 2018.

OIBD remained fairly stable compared to last year despite lower capitalized costs with the end of our ERP implementation during 2018. Ongoing business process optimization initiatives are slowing down and focus is now on stabilizing and optimizing our systems and processes.

### STOCK-BASED COMPENSATION EXPENSE

Stock-based compensation expense recognized in the Corporate Activities amounted to $2 million in the first nine months of 2019 ($1 million in the third quarter), compared with $4 million in the same period of 2018 ($2 million in the third quarter). For more details on stock-based compensation, please refer to Note 19 of the 2018 audited consolidated financial statements.

# OTHER ITEMS ANALYSIS

### DEPRECIATION AND AMORTIZATION

The depreciation and amortization expense increased by $38 million to $212 million in the first nine months of 2019 ($73 million in the third quarter), compared with $174 million in the same period of 2018 ($61 million in the third quarter). The increase is mainly attributable to business acquisitions completed at the end of 2018, capital expenditure investments completed during the last twelve months, and the adoption of *IFRS 16 Leases* (see Note 3 of the unaudited condensed interim consolidated financial statements for more details). Impairment charges recorded in 2018 partly offset this increase.

### FINANCING EXPENSE AND INTEREST ON EMPLOYEE FUTURE BENEFITS AND OTHER LIABILITIES

The financing expense and interest on employee future benefits and other liabilities amounted to $122 million in the first nine months of 2019 ($48 million in the third quarter), compared with $70 million in the same period of 2018 ($24 million in the third quarter), a $52 million variance.

The variance is mainly attributable to the fair value revaluation recognized on the CDPQ put option on the Corporation investment in Greenpac, which increased by $36 million compared with last year as a result of Greenpac's improving financial performance. The adoption of *IFRS 16 Leases* (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details), as well as business acquisitions and capital expenditures made in 2018 increased debt levels which increased financing expense and interest on employee future benefits and other liabilities.

The Corporation also recorded an unrealized loss of $1 million (unrealized loss of $7 million in the third quarter), compared with nil in 2018, on the fair value revaluation of a one-time option granted to White Birch to purchase an interest of up to 10% in the Bear Island containerboard mill project. On July 12, 2019, S&P Global Ratings revised the Corporation's outlook to "stable" from "positive" on higher leverage; the corporate rating of BB- was reaffirmed.

### PROVISION FOR INCOME TAXES

In the first nine months of 2019, the Corporation recorded an income tax provision of $30 million, which compares with an income tax provision of $57 million in the same period of 2018.

Greenpac is a limited liability company (LLC) and partners agreed to account for it as a disregarded entity for tax purposes. Consequently, income taxes associated with Greenpac net earnings are proportionately recorded by each partner based on its respective share in the LLC and no income tax provision is included in Greenpac's net earnings. As such, although Greenpac has been fully consolidated in the Corporation's results since the third quarter of 2017, only 71.8% of pre-tax book income is considered for tax provision purposes.

The effective tax rate and income taxes are affected by the results of certain subsidiaries and joint ventures located in countries where the income tax rates are different from those in Canada, notably the United States, France and Italy. The normal effective tax rate is expected to be in the range of 26% to 28%. The weighted-average applicable tax rate was 25.4% in the first nine months of 2019.

### SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES

Share of results of associates and joint ventures amounted to $6 million ($2 million in the third quarter) in the first nine months of 2019 compared with $7 million ($3 million in the third quarter) for the same period of last year. Please refer to Note 8 of the 2018 audited consolidated financial statements for more information on associates and joint ventures.

*1 Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

# LIQUIDITY AND CAPITAL RESOURCES

## CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows from operating activities generated $297 million of liquidity in the first nine months of 2019 ($157 million generated in the third quarter), compared with $288 million generated in the same period of 2018 ($134 million generated in the third quarter). Changes in non-cash working capital components used $13 million of liquidity in the first nine months of 2019 ($53 million generated in the third quarter), versus $16 million generated in the same period of 2018 ($42 million generated in the third quarter). Stronger sales in 2019 and higher inventory levels to increase customer service led to increases in working capital requirements. As at September 30, 2019, average LTM working capital as a percentage of LTM sales stood at 10.3%, compared with 10.7% as at December 31, 2018.

Cash flow from operating activities, excluding changes in non-cash working capital components, stood at $310 million in the first nine months of 2019 ($104 million in the third quarter), compared with $272 million in the same period of 2018 ($92 million in the third quarter). This cash flow measurement is relevant to the Corporation's ability to pursue its capital expenditure program and reduce its indebtedness.

## INVESTING ACTIVITIES

Investing activities used $471 million in the first nine months of 2019 ($339 million used in the third quarter) compared with $202 million used in the same period of 2018 ($128 million used in the third quarter).

### INVESTMENTS IN ASSOCIATES & JOINT VENTURES AND CHANGE IN INTANGIBLE AND OTHER ASSETS

The main items were as follows:

**2019**

In the first nine months of 2019, the Corporation invested $6 million in its ERP information technology system and other software development needed to support our business and received $3 million from notes receivable and other assets. The Corporation also received $1 million following the sale of shares of one of its joint ventures.

**2018**

In the first nine months, the Corporation invested $13 million in intangible and other assets related to its ERP information technology system and other software needed to support our business process optimization.

Also during the period, the Corporation paid a $2 million purchase price adjustment related to the acquisition of a joint-venture participation in 2017.

In the first nine months, the Corporation also received $2 million related to a note receivable for a plant sold in previous years.

### PAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

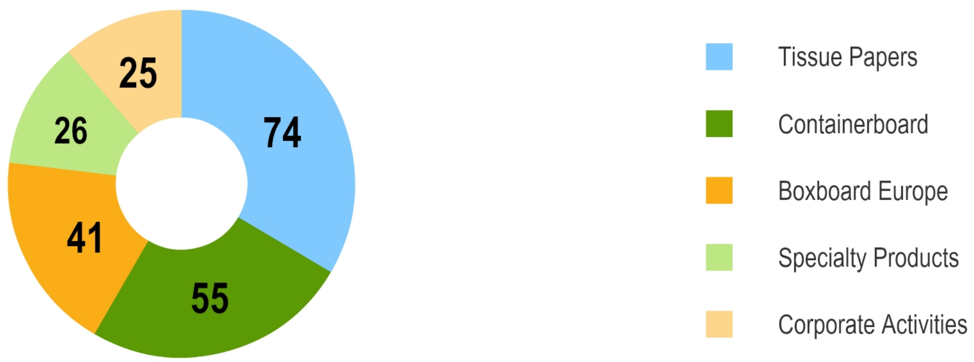
| | For the 3-month periods ended September 30, | | For the 9-month periods ended September 30, | |
|---|---|---|---|---|
| (in millions of Canadian dollars) | **2019** | 2018 | **2019** | 2018 |
| New capital expenditure projects | **82** | 132 | **221** | 334 |
| Variation of acquisitions for property, plant and equipment included in “Trade and other payables” | **(7)** | (6) | **6** | 8 |
| Right-of-use assets and included in other debts and liabilities | **(9)** | (2) | **(42)** | (68) |
| **Payments for property, plant and equipment** | **66** | 124 | **185** | 274 |
| **Proceeds from disposals of property, plant and equipment [1]** | **(19)** | — | **(21)** | (82) |
| **Payments for property, plant and equipment net of proceeds from disposals** | **47** | 124 | **164** | 192 |

*1 The 2018 first quarter proceeds from disposals of property, plant and equipment are mainly related to the Maspeth, NY, plant closure (please refer to the “Business Highlights” section for more details).*

Payments for property, plant and equipment in the first nine months of 2019 were $185 million ($66 million in the third quarter), compared with $274 million in the same period of 2018 ($124 million in the third quarter).

New capital expenditure projects amounted to $221 million in the first nine months of 2019 ($82 million in the third quarter), compared to $334 million in the same period of 2018 ($132 million in the third quarter). The variance in the amounts is related to purchases of property, plant and equipment, included in “Trade and Other Payables”, and other debts, as well as lease acquisitions.

New capital expenditure projects, including right-of-use assets, by segment in the first nine months of 2019 were as follows (in $M):




The major capital projects that were initiated, are in progress or were completed in the first nine months of 2019 are as follows:

**CONTAINERBOARD PACKAGING**

- Investments in converting equipment at our plant in St. Mary's, Ontario, Canada, to improve productivity and quality.
- Bear Island assets in Virginia, USA (please refer to the "Business Highlights" section for more details).

**BOXBOARD EUROPE**

- Investments to improve the gas turbine and a winder at the Barcelona plant, a new paper cutter part of a new sheeting center and a waste washing machine at the Santa Giustina plant.

**TISSUE PAPERS**

- Investment in new converting lines at our Wagram facility in North Carolina, USA, and down payments made on the acquisition of other converting equipment to be installed in 2019 and 2020.
- New warehouse in Candiac, Québec, allowing better inventory management to increase the service level and reduce warehousing costs.

Proceeds from disposals of property, plant and equipment stood at $21 million in the first nine months of 2019 ($19 million in the third quarter), compared to $82 million in the same period of 2018 (nil in the third quarter).

As part of the transaction Orchids acquisition, the Corporation acquired all of the outstanding units of OPP Acquisition Mexico S. de R.L. de C.V., designated as assets held-for-sale, which were resold the same day for US$14 million ($19 million) of which US$10 million ($14 million) has been received as of September 30, 2019.

In 2018, the amount includes the sale of the building and land of our Maspeth, New York plant in the first quarter.

## NET CASH ACQUIRED (PAID) IN BUSINESS COMBINATIONS

### 2019
In the first nine months, the Corporation acquired the activities of Orchids Paper Products Company, including a cash consideration of US$237 million ($314 million) (please refer to the "Business Highlights" section or Note 5 of the Unaudited Condensed Interim Consolidated Financial Statements for more details). The cash consideration is composed of US$207 million for the assets acquired and US$30 million for the settlement of certain liabilities at the closing of the transaction.

### 2018
In the first nine months, the Corporation acquired $4 million of cash and cash equivalent from the business combination of PAC Service. The Corporation also paid a working capital purchase price adjustment of $1 million in relation to its Coyle containerboard plants acquisition in 2017.

## PROCEEDS ON DISPOSALS OF A SUBSIDIARY, NET OF CASH DISPOSED

### 2019
In the third quarter, the Corporation sold its participation of 90% in Cascades Europe S.A.S., which owns Cascades Rollpack, a packaging manufacturer located in France for a total cash consideration of €7 million ($10 million) received at closing less cash disposed of €1 million ($1 million), for net proceeds of €6 million ($9 million).

## FINANCING ACTIVITIES

Financing activities, including $15 million of dividend payments to Shareholders, debt repayment and the change in our revolving facility, generated $195 million in liquidity in the first nine months of 2019 ($224 million generated in the third quarter), compared with $36 million used in the same period of 2018 ($39 million generated in the third quarter). The Corporation purchased 831,300 shares for cancellation at an average price of $9.16 for an amount of $8 million in the first nine months of 2019. Dividends paid to non-controlling interests amounted to $14 million in the first nine months of 2019, compared with $12 million in the same period of 2018. These payments are the result of dividends paid to the non-controlling shareholders of Greenpac and Reno de Medici. Non-controlling interest contributed $1 million to the capital of Greenpac during the first nine months of 2018, representing the reinvestment of investment tax credits received by the partners. In the first nine months of 2018, the Corporation also paid $1 million for the settlement of derivative financial instruments. Finally, the Corporation received $4 million from the issuance of shares upon exercise of stock options, compared to $4 million in the same period of 2018.

## CONSOLIDATED FINANCIAL POSITION

### AS AT SEPTEMBER 30, 2019 AND DECEMBER 31, 2018

The Corporation's financial position and ratios are as follows:

| (in millions of Canadian dollars, unless otherwise noted) | **September 30, 2019** | December 31, 2018 [3] |
|---|---|---|
| Cash and cash equivalents | **138** | 123 |
| Working capital[1] | **502** | 455 |
| As a percentage of sales[2] | **10.3%** | 10.6% |
| Total assets | **5,369** | 4,945 |
| Total debt[4] | **2,215** | 1,892 |
| Net debt[4] (total debt less cash and cash equivalents) | **2,077** | 1,769 |
| Equity attributable to Shareholders | **1,578** | 1,505 |
| Non-controlling interests | **174** | 179 |
| Total equity | **1,752** | 1,684 |
| Total equity and net debt | **3,829** | 3,453 |
| Ratio of net debt/(total equity and net debt) | **54.2%** | 51.2% |
| Shareholders' equity per share (in dollars) | **$ 17.43** | $ 15.98 |

*1 Working capital includes accounts receivable (excluding the short-term portion of other assets) plus inventories less trade and other payables.*

*2 Percentage of sales = Average LTM working capital/LTM sales. It includes or excludes significant business acquisitions and disposals, respectively, of the last twelve months.*

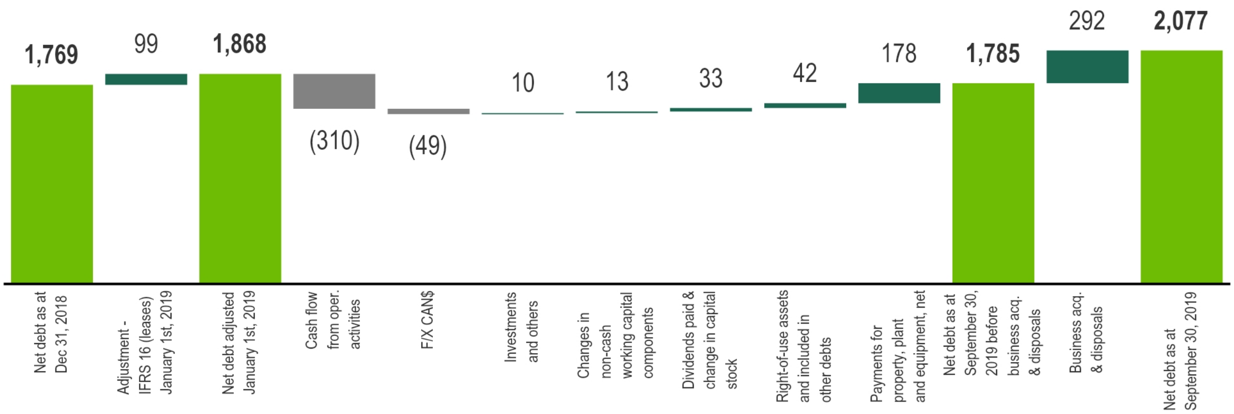
*3 2018 fourth quarter results have been adjusted to reflect retrospective adjustments of purchase price allocation. Please refer to Note 5 of the unaudited condensed interim consolidated financial statements for more details.*

*4 Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

## NET DEBT[1] RECONCILIATION

The variances in the net debt (total debt less cash and cash equivalents) in the first nine months of 2019 are shown below (in millions of dollars), with the applicable financial ratios included.




| | | | |
|---|---|---|---|
| 489 | Adjusted OIBD[1] (last twelve months) | **565** | |
| 3.5 | Net debt/Adjusted OIBD[1] | **3.1** | **3.7** |

*1 Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

Liquidity available via the Corporation's credit facilities and the anticipated cash flow generated by its operating activities are expected to provide sufficient funds to meet our financial obligations and to fulfill our capital expenditure program for at least the next twelve months. Net capital expenditures are expected to be in the range of $280-$310 million in 2019. This amount is subject to change, depending on the Corporation's operating results and on general economic conditions. As at September 30, 2019, the Corporation had $337 million (net of letters of credit in the amount of $12 million) available on its $750 million credit facility (excluding the credit facilities of our subsidiaries Greenpac and Reno de Medici). Cash and cash equivalents as at September 30, 2019 are comprised as follows: $70 million in the parent company and restricted subsidiaries and $68 million in unrestricted subsidiaries, mainly Greenpac and Reno de Medici.

## NEAR-TERM OUTLOOK

After nine months, the Company is well positioned to generate solid annual adjusted OIBD in 2019, with results after the first three quarters 15% above full year 2017 performance and already equal to 92% of full year 2018 adjusted OIBD performance. On a consolidated basis we expect fourth quarter results to improve year-over-year, with operational enhancements in tissue and favourable raw material pricing mitigating the usual seasonal trends across our business platforms. On a segmented basis, near-term results in Containerboard are expected to decrease sequentially and be stable year-over-year reflecting a combination of usual seasonality and market dynamics. Tissue results are expected to show important year-over-year improvements in the fourth quarter, while sequential performance will be down reflecting the usual seasonal trends. European Boxboard performance is expected to slightly decrease sequentially, but improve year-over-year as a result of lower raw material costs and a modest recovery in volume. Lastly, we anticipate stable results in Specialty Products year-over-year and a slight decrease sequentially, as the impact of lower recycled fibre prices on recovery operations and seasonality in packaging are expected to be offset by stable selling prices and beneficial raw material costs in packaging.

# CAPITAL STOCK INFORMATION

## SHARE TRADING

Cascades' stock is traded on the Toronto Stock Exchange under the ticker symbol "CAS". From January 1, 2019 to September 30, 2019, Cascades' share price fluctuated between $7.84 and $12.42. During the same period, 37.9 million Cascades shares were traded on the Toronto Stock Exchange. On Monday September 30, 2019, Cascades shares closed at $11.58. This compares with a closing price of $12.61 on the same closing day last year.

## SHARES OUTSTANDING

As at September 30, 2019, the Corporation's issued and outstanding capital stock consisted of 94,208,515 shares (94,163,515 as at December 31, 2018) and 3,665,026 issued and outstanding stock options (4,409,358 as at December 31, 2018). In the first nine months of 2019, the Corporation purchased 831,300 shares for cancellation, while 876,300 stock options were exercised, 200,354 options were granted and 68,386 stock options were forfeited. As at November 7, 2019, issued and outstanding capital stock consisted of 94,329,849 shares and 3,530,629 stock options.

## NORMAL COURSE ISSUER BID PROGRAM

The normal course issuer bid announced on March 15, 2018 enabled the Corporation to purchase for cancellation up to 1,903,282 shares between March 19, 2018 and March 18, 2019. During that period, the Corporation purchased 1,903,200 shares for cancellation. The current normal course issuer bid announced on March 14, 2019 enables the Corporation to purchase for cancellation up to 1,878,456 shares between March 19, 2019 and March 18, 2020. During the period between March 19, 2019 and November 7, 2019, the Corporation purchased 289,100 shares for cancellation.

## DIVIDEND POLICY

On November 7, 2019, Cascades' Board of Directors declared a quarterly dividend of $0.08 per share to be paid on December 5, 2019, to shareholders of record at the close of business on November 21, 2019. The quarterly dividend was increased to $0.08 per share in the second quarter of 2019. On November 7, 2019, dividend yield was 2.4%.

| | | | | 2017 | | | | 2018 | | | **2019** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **TSX Ticker: CAS** | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | **Q1** | **Q2** | **Q3** |
| Shares outstanding (in millions) [1] | 94.7 | 94.7 | 94.7 | 95.0 | 95.0 | 94.6 | 94.2 | 94.2 | **93.6** | **93.6** | **94.2** |
| Closing price [1] | $ 13.71 | $ 17.69 | $ 14.96 | $ 13.62 | $ 13.33 | $ 11.77 | $ 12.61 | $ 10.23 | **$ 8.34** | **$ 10.54** | **$ 11.58** |
| Average daily volume [2] | 182,011 | 362,191 | 214,545 | 208,984 | 246,940 | 201,563 | 215,882 | 218,696 | **238,606** | **202,448** | **164,371** |
| Dividend yield [1] | 1.2% | 0.9% | 1.1% | 1.2% | 1.2% | 1.4% | 1.3% | 1.6% | **1.9%** | **1.5%** | **2.8%** |

1 On the last day of the quarter.
2 Average daily volume on the Toronto Stock Exchange.

### CASCADES' SHARE PRICE FOR THE PERIOD FROM JULY 1, 2017 TO SEPTEMBER 30, 2019

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

For all the details for this section, please refer to the notes to the unaudited condensed interim consolidated financial statements.

# CONTROLS AND PROCEDURES

### EVALUATION OF THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Corporation's President and Chief Executive Officer, and its Vice-President and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures (DC&P), and internal controls over financial reporting (ICFR), as defined in National Instrument 52-109, "Certification of Disclosure in Issuer's Annual and Interim Filings".

The DC&P have been designed to provide reasonable assurance that important information relevant to the Corporation is communicated to the President and Chief Executive Officer and to the Vice-President and Chief Financial Officer by other people and that information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by the Corporation under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. They have limited the scope of their design of DC&P and ICFR to exclude controls, policies and procedures of the Corporation's 2018 and 2019 business combinations. The design and evaluation of the operating effectiveness of the 2018 and 2019 business combinations' DC&P and ICFR will be completed within 365 days from the date of acquisition. The President and Chief Executive Officer and the Vice-President and Chief Financial Officer have concluded, based on their evaluation, that the DC&P of the Corporation were effective as at September 30, 2019.

Business combinations' balance sheet and results are included in our consolidated financial statements since the acquisition date. They constituted approximately 10.8% of total consolidated assets as of September 30, 2019, while they represented approximately 7.2% of consolidated sales and approximately 6.7% of consolidated net earnings attributable to Shareholders for the period ended September 30, 2019. Further details on these business combinations are disclosed in Note 5 of 2019 third quarter unaudited condensed interim consolidated financial statements.

The ICFR was designed to provide reasonable assurance that the financial information presented is reliable and that the financial statements were prepared according to the IFRS. The President and Chief Executive Officer and the Vice-President and Chief Financial Officer have evaluated the effectiveness of the ICFR as at September 30, 2019, based on the control framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO Framework). Based on this evaluation, they have concluded that the Corporation's ICFR were effective as of the same date. During the three-month period ended September 30, 2019, there were no changes in the Corporation's ICFR that materially affected or are reasonably likely to materially affect, the Corporation's ICFR.

# RISK FACTORS

As part of its ongoing business operations, the Corporation is exposed to certain market risks, including risks arising from changes in the selling prices of its principal products, the cost of raw materials, interest rates and foreign currency exchange rates, all of which could have an impact on the Corporation's financial position, operating results and cash flows. The Corporation manages its exposure to these and other market risks through regular operating and financing activities and, on a limited basis, through the use of derivative financial instruments. We use these derivative financial instruments as risk management tools and not for speculative investment purposes. Pages 55 to 63 of our Annual Report for the year ended December 31, 2018 contain a discussion of the key areas of the Corporation's business risks and uncertainties and its mitigating strategies. This information on business risks and enterprise risk management remains substantially unchanged. Please refer to our Annual Report for further details.

# APPENDIX

**INFORMATION FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018**

# FINANCIAL RESULTS FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018

## SALES

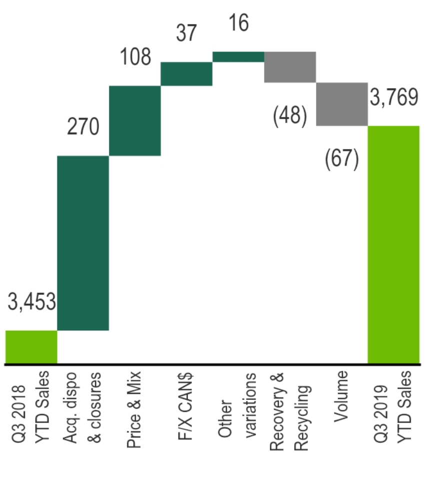
Sales increased by $316 million, or 9%, to $3,769 million in the first nine months of 2019, compared with $3,453 million in the same period of 2018.This reflects business acquisitions during the period and in the fourth quarter of 2018 and higher selling prices in all segments, with the exception of Boxboard Europe. However, on a same plant basis, lower volumes had a negative impact on sales. The 3% average depreciation of the Canadian dollar compared to the US dollar benefited sales levels during the quarter, but were partly offset by the 3% appreciation of the Canadian dollar compared to the euro. Recovery and Recycling activities generated lower sales as a result of the decrease in recycled fibre prices.

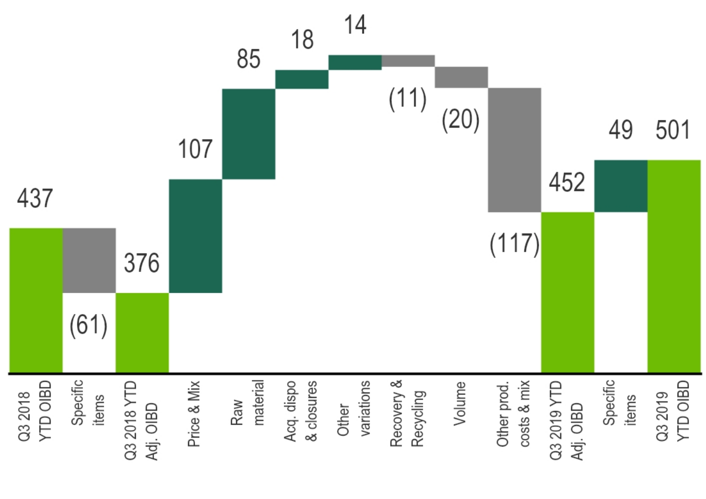
## OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBD)

The Corporation generated an OIBD of $501 million in the first nine months of 2019, compared with $437 million in the same period of 2018, an increase of $64 million. Specific items[1] recorded in both periods negatively impacted the OIBD variance by $12 million. Excluding specific items, the $76 million adjusted OIBD increase is mainly explained by higher average selling prices in all North American segments, lower raw materials costs, and business acquisitions during the period and in the fourth quarter of 2018. On the other hand, lower contribution from the Recovery and Recycling activities and lower volumes in almost all segments had a negative impact on OIBD. The Tissue Papers and Containerboard segments benefited from higher selling prices and a favourable mix of products sold as a higher proportion of converted products sold contributed positively to OIBD.

Adjusted OIBD[1] was $452 million in the first nine months of 2019, compared with $376 million in the same period of 2018.

The main variances in sales and operating income before depreciation and amortization in the first nine months of 2019, compared with the same period of 2018, are shown below:




The sales and OIBD variances analysis by segment is shown in each business segment review (refer to pages 36 to 43).

The Corporation incurred certain specific items in the first nine months of 2019 and 2018 that adversely or positively affected its operating results[1].

*For definitions of certain sales and operating income before depreciation and amortization (OIBD) variation categories, please refer to the "Financial results for the 3-month periods ended September 30, 2019 and 2018" section for more details.*

*[1] Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

# APPENDIX (CONTINUED)

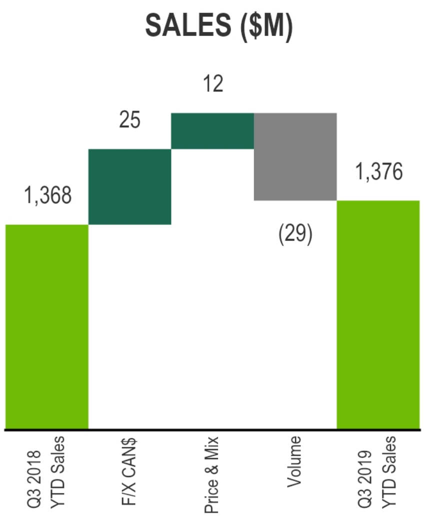
**INFORMATION FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2019 AND 2018**

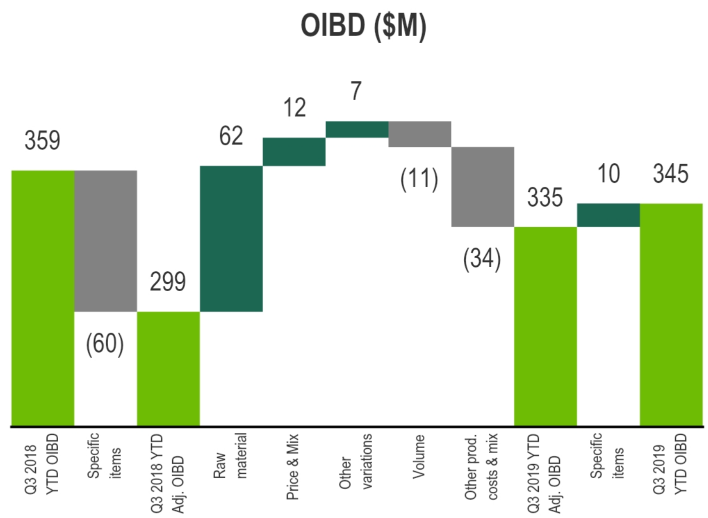
## BUSINESS SEGMENT REVIEW

## PACKAGING PRODUCTS - CONTAINERBOARD

## Our Performance (Q3 2018 YTD vs. Q3 2019 YTD)

The main variances in sales and operating income before depreciation and amortization for the Containerboard Packaging segment in the first nine months of 2019, compared with the same period of 2018, are shown below:




*For definitions of certain sales and operating income before depreciation and amortization (OIBD) variation categories, please refer to the "Financial results for the 3-month periods ended September 30, 2019 and 2018" section for more details.*

The Corporation incurred certain specific items in the first nine months of 2019 and 2018 that adversely or positively affected its operating results[1].

[1] *Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

| | Q3 2018 YTD | Q3 2019 YTD | Change in % |
|---|---|---|---|
| Shipments[2] ('000 s.t.) | 1,107 | 1,082 | -2% |
| Average Selling Price (CAN$/unit) | 1,236 | 1,272 | 3% |
| Sales ($M) | 1,368 | 1,376 | 1% |
| OIBD[1] ($M) (as reported) | 359 | 345 | -4% |
| % of sales | 26% | 25% | |
| (adjusted)[1] | 299 | 335 | 12% |
| % of sales | 22% | 24% | |
| Operating income ($M) (as reported) | 297 | 259 | -13% |
| (adjusted)[1] | 237 | 249 | 5% |

*1 Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

*2 Shipments do not take into account the elimination of business sector inter-segment shipments. Including 9.8 billion square feet in the first nine months of 2019 compared to 9.6 billion square feet in the same period of 2018.*

*3 Including sales to other partners in Greenpac.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

Shipments decreased by 25,000 s.t., or 2%, in the first nine months of 2019. This reflects a 33,000 s.t. decrease in external shipments from our containerboard mills. A higher mill integration rate of 58% in the first nine months of 2019, compared with 56% in the same period last year, lower market demand and a 3% decrease in the capacity utilization rate led to lower external parent roll shipments. Including sales to associates[3], the integration rate was 71% in the first nine months of 2019, compared with 72% during the same period last year. On the converting side, shipments slightly increased by 1%. This is in line with the Canadian market and outperformed the US market.

The average selling price denominated in Canadian dollars remained stable for parent rolls, and increased by 2% for converted products. The 3% average depreciation of the Canadian dollar compared to the US dollar also favorably impacted average selling prices.

Sales increased by $8 million, or 1%, compared with the first nine months of 2018. The higher average selling price and a favourable mix of products sold added $12 million to sales, while the depreciation of the Canadian dollar added another $25 million. These positive impacts offset lower volumes, which negatively impacted sales by $29 million.

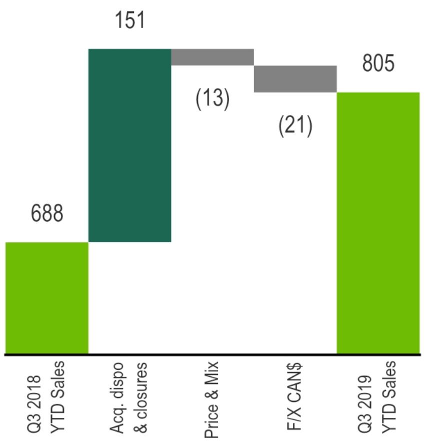
Operating income before depreciation and amortization (OIBD) decreased by $14 million, or 4% during the first nine months of 2019 compared with the same period of 2018. Excluding specific items[1] in both periods, the $36 million favourable variation in OIBD reflects a higher average selling price and a favourable mix of products sold, which had a combined positive impact of $12 million, lower costs of brown recycled fibre grades which added $62 million, and the 3% average depreciation of the Canadian dollar which contributed an additional $5 million. These were partly offset by lower volume and higher freight costs that subtracted $11 million and $1 million, respectively, from OIBD. In addition, higher operational costs, specifically labour, chemicals and warehousing subtracted another $33 million from OIBD.

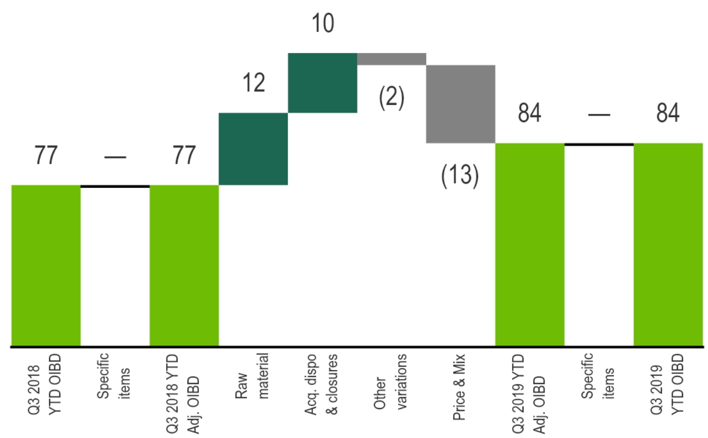
The segment incurred some specific items[1] in the first nine months of 2019 and 2018 that affected OIBD. Adjusted OIBD[1] was $335 million in the first nine months of 2019, compared with $299 million in the same period of 2018.

## PACKAGING PRODUCTS - BOXBOARD EUROPE

# Our Performance (Q3 2018 YTD vs. Q3 2019 YTD)

The main variances in sales and operating income before depreciation and amortization for the Boxboard Europe segment in the first nine months of 2019, compared with the same period of 2018, are shown below:




*For definitions of certain sales and operating income before depreciation and amortization (OIBD) variation categories, please refer to the "Financial results for the 3-month periods ended September 30, 2019 and 2018" section for more details.*

The Corporation incurred certain specific items in the first nine months of 2019 and 2018 that adversely or positively affected its operating results[1].

*[1] Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

| | Q3 2018 YTD | Q3 2019 YTD | Change in % |
|---|---|---|---|
| Shipments[2] ('000 s.t.) | 833 | 985 | 18% |
| Average Selling Price[3] (CAN$/unit) | 825 | 778 | -6% |
| (euro€/unit) | 537 | 521 | -3% |
| Sales ($M) | 688 | 805 | 17% |
| OIBD[1] ($M) (as reported) | 77 | 84 | 9% |
| % of sales | 11% | 10% | |
| (adjusted)[1] | 77 | 84 | 9% |
| % of sales | 11% | 10% | |
| Operating income ($M) (as reported) | 51 | 51 | — |
| (adjusted)[1] | 51 | 51 | — |

*1 Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

*2 Shipments do not take into account the elimination of business sector inter-segment shipments.*

*3 Average selling price is a weighted average of virgin, recycled and converted boxboard shipments.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

External recycled boxboard shipments increased by 158,000 s.t., or 23%, in the first nine months of 2019 compared with the same period of 2018. This reflects the acquisition of Barcelona Cartonboard (please refer to the "Business Highlights" section for more details) which added 157,000 s.t.. Shipments of virgin boxboard decreased by 6,000 s.t., or 5%, while converted products shipments remained stable.

The average selling price decreased in both euros and Canadian dollars year-over-year. This reflects the 3% average year-over-year appreciation of the Canadian dollar compared to the euro, the higher portion of recycled products sold following the acquisition of Barcelona Cartonboard at the end of 2018, and in addition to a less favourable geographical mix of products sold. Compared with the prior year period, the average selling price of recycled boxboard decreased by €14, or 3%, in the first nine months of 2019, while the average selling price of virgin boxboard increased by €30, or 4%.

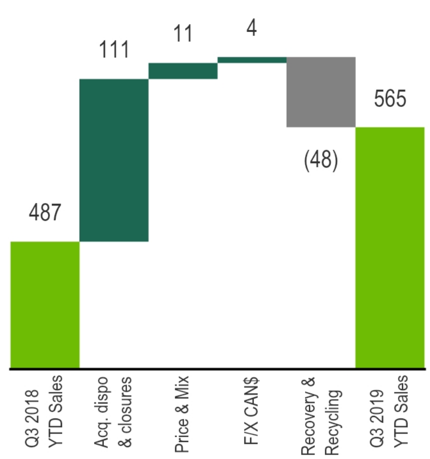
The $117 million year-over-year increase in sales in the first nine months of 2019 reflects the acquisition of Barcelona Cartonboard, which contributed $151 million. This was offset by the 3% average year-over-year appreciation of the Canadian dollar compared to the euro, which reduced sales by $21 million. The lower average selling price, on a same plant basis, also negatively affected sales by $13 million.

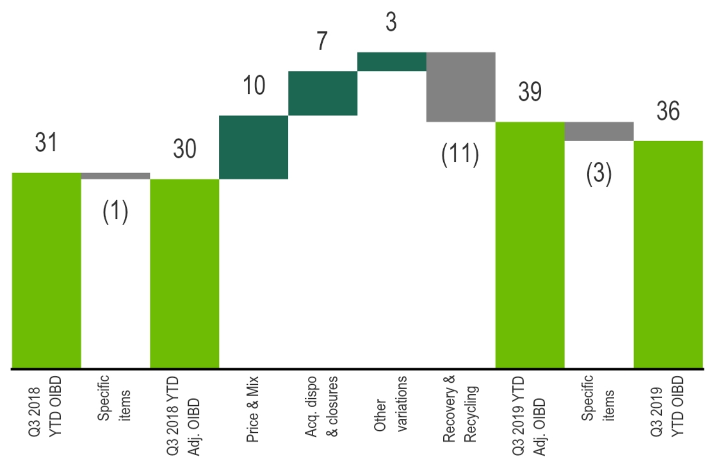
Operating income before depreciation and amortization (OIBD) increased by $7 million year-over-year. This reflects lower raw material prices, which added $12 million, and the $10 million contribution from Barcelona Cartonboard. Conversely, the lower average selling price reduced OIBD by $13 million and the 3% average appreciation of the Canadian dollar further reduced OIBD by $2 million.

## PACKAGING PRODUCTS - SPECIALTY PRODUCTS

# Our Performance (Q3 2018 YTD vs. Q3 2019 YTD)

The main variances in sales and operating income before depreciation and amortization for the Specialty Products segment in the nine months of 2019, compared with the same period of 2018, are shown below:




*For definitions of certain sales and operating income before depreciation and amortization (OIBD) variation categories, please refer to the "Financial results for the 3-month periods ended September 30, 2019 and 2018" section for more details.*

The Corporation incurred certain specific items in the first nine months of 2019 and 2018 that adversely or positively affected its operating results[1].

*[1] Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

| | Q3 2018 YTD | Q3 2019 YTD | Change in % |
|---|---|---|---|
| **Sales ($M)** | 487 | 565 | 16% |
| **OIBD[1] ($M)** (as reported) | 31 | 36 | 16% |
| % of sales | 6% | 6% | |
| (adjusted)[1] | 30 | 39 | 30% |
| % of sales | 6% | 7% | |
| **Operating income ($M)** (as reported) | 15 | 13 | -13% |
| (adjusted)[1] | 14 | 16 | 14% |

1 *Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

2 *Recovery and Recycling activities: Given the level of integration of this sub-segment within the other segments of the Corporation, variances in results are presented excluding the impact of this segment. The variations of this segment are presented separately on a global basis.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

Shipments were positively impacted by a business acquisition completed in the fourth quarter of 2018. However, shipments decreased in European activities, in Consumer Product Packaging and in the Recovery and Recycling sub-sectors compared with the same period of 2018.

Sales increased by $78 million, or 16%, compared with the prior year period. This was mainly due to the $115 million additional contribution from a business acquisition, partly offset by the closure of vinyl backing operations, which on a net basis increased sales by $111 million. Higher average selling prices in almost all sub-sectors, higher volume in Industrial Packaging and a favourable exchange rate, contributed $11 million, $7 million and $4 million, respectively. These were partially offset by the decrease in recycled paper prices in Recovery and Recycling activities[2] and lower volume in the Consumer Product Packaging sub-sector and European activities by $48 million and $7 million, respectively.

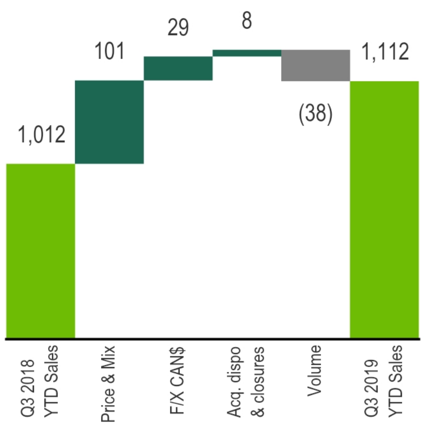
Operating income before depreciation and amortization (OIBD) increased by $5 million in the first nine months of 2019. This was primarily due to the higher realized spreads in almost all sub-sectors and favourable impact from a business acquisition completed in the fourth quarter of 2018, which added $15 million and $7 million, respectively. Partially offsetting these were lower realized spreads in our Recovery and Recycling activities[2] for $11 million. In addition, higher operating costs decreased the OIBD by $4 million.

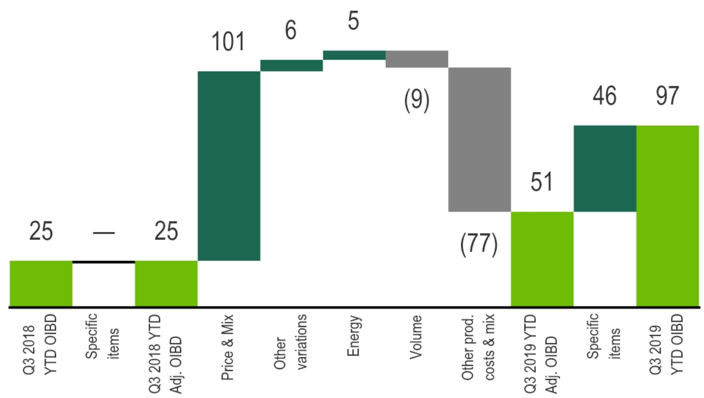
The segment incurred some specific items[1] in the first nine months of 2019 and 2018 that affected OIBD. Adjusted OIBD[1] reached $39 million in the first nine months of 2019, compared with $30 million in the same period of 2018.

## TISSUE PAPERS

# Our Performance (Q3 2018 YTD vs. Q3 2019 YTD)

The main variances in sales and operating income before depreciation and amortization for the Tissue Papers segment in the first nine months of 2019, compared with the same period of 2018, are shown below:




*For definitions of certain sales and operating income before depreciation and amortization (OIBD) variation categories, please refer to the "Financial results for the 3-month periods ended September 30, 2019 and 2018" section for more details.*

The Corporation incurred certain specific items in the first nine months of 2019 and 2018 that adversely or positively affected its operating results[1].

*[1] Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

| | Q3 2018 YTD | Q3 2019 YTD | Change in % |
|---|---|---|---|
| Shipments[2] ('000 s.t.) | 476 | 462 | -3% |
| Average Selling Price (CAN$/unit) | 2,129 | 2,409 | 13% |
| Sales ($M) | 1,012 | 1,112 | 10% |
| OIBD ($M) (as reported) | 25 | 97 | 288% |
| % of sales | 2% | 9% | |
| OIBD ($M) (adjusted)[1] | 25 | 51 | 104% |
| % of sales | 2% | 5% | |
| Operating income (loss) ($M) (as reported) | (22) | 54 | 345% |
| Operating income (loss) ($M) (adjusted)[1] | (22) | 8 | 136% |

1 *Please refer to the "Supplemental Information on Non-IFRS Measures" section for reconciliation of these figures.*
2 *Shipments do not take into account the elimination of business sector inter-segment shipments.*

On January 1, 2019, the Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information, including non-IFRS measures and tables, as allowed by the Standard (see Note 3 of the Unaudited Condensed Interim Consolidated Financial Statements for more details).

External manufacturing shipments decreased by 42,000 s.t., or 30%, year-over-year in the first nine months of 2019. This was mainly due to a higher integration rate of 77% in the first nine months of 2019, compared with 69% for the same period last year. External converting shipments increased by 25,000 s.t., or 8%, compared with the same period of 2018, mainly driven by new volume with key strategic customers. The acquisition of Orchids added 3,000 s.t. at the end of the period.

The 13% increase in average selling price was mainly due to the 3% average depreciation of the Canadian dollar compared to the US dollar as well as a favourable mix of converted products sold. In addition to these beneficial impacts, the price increases announced in 2018 and the beginning of 2019, in both the AFH and Consumer Products sectors, positively impacted the average selling price year-over-year.

The 10% increase in sales compared with the first nine months of 2018 was largely driven by an increase in selling price and a favourable sales mix, as noted above, which added $101 million. Unfortunately, the sales were negatively impacted by the decrease in total volume in the manufacturing sector, for a total negative impact of $38 million on sales. The 3% average depreciation of the Canadian dollar against the US dollar also also benefited sales by $29 million.

The significant increase in operating income before depreciation and amortization (OIBD) is largely due to the $52 million gain recorded on the Orchids' acquisition (please refer to the "Business Highlights" section for more details). A higher average selling price, favourable sales mix, significant improvements in operational efficiency and a decrease in raw material costs also had a positive impact on OIBD. These were partially offset by higher transportation and higher outsourcing costs year-over-year. Production costs per ton were higher year-over-year as a result of a greater proportion of converted product sold. These products are sold at a higher selling price and margin.

The acquisition of Orchids, which closed on September 13, 2019, will accelerate the modernization of the Tissue platform and improve geographic positioning and supply chain logistics. Planning for the conversion of the Barnwell paper machine to produce conventional paper has begun, and currently outsourced volume is presently being transferred internally to fill the unused capacity of these assets.

The Oregon converting activities are generating positive trends in terms of sales and OIBD, but have still not attained the targeted level. In 2018, operational difficulties at the St. Helens mill negatively impacted the ramp-up of the Oregon converting plant, as these facilities are highly integrated. The ongoing action plan in place at the St. Helens paper mill in Oregon is delivering quarterly improvements and we expect to see additional positive impacts in the coming quarters.

The segment incurred some specific items[1] in the first nine months of 2019 that affected OIBD. Adjusted OIBD[1] reached $51 million in the first nine months of 2019, compared with $25 million in the same period of 2018.

# CONSOLIDATED BALANCE SHEETS

| (in millions of Canadian dollars) (unaudited) | NOTE | September 30, 2019 | December 31, 2018 |
|---|---|---|---|
| | | | Adjusted, Note 5 |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **138** | 123 |
| Accounts receivable | | **714** | 635 |
| Current income tax assets | | **32** | 29 |
| Inventories | | **578** | 606 |
| Current portion of financial assets | 9 | **12** | 10 |
| | | **1,474** | 1,403 |
| **Long-term assets** | | | |
| Investments in associates and joint ventures | | **82** | 81 |
| Property, plant and equipment | 3 | **2,879** | 2,505 |
| Intangible assets with finite useful life | | **184** | 204 |
| Financial assets | 9 | **18** | 20 |
| Other assets | | **40** | 42 |
| Deferred income tax assets | | **145** | 134 |
| Goodwill and other intangible assets with indefinite useful life | | **547** | 556 |
| | | **5,369** | 4,945 |
| **Liabilities and Equity** | | | |
| **Current liabilities** | | | |
| Bank loans and advances | | **14** | 16 |
| Trade and other payables | | **788** | 781 |
| Current income tax liabilities | | **26** | 23 |
| Current portion of long-term debt | 3 and 8 | **87** | 55 |
| Current portion of provisions for contingencies and charges | | **6** | 6 |
| Current portion of financial liabilities and other liabilities | 9 | **114** | 101 |
| | | **1,035** | 982 |
| **Long-term liabilities** | | | |
| Long-term debt | 3 and 8 | **2,114** | 1,821 |
| Provisions for contingencies and charges | | **44** | 42 |
| Financial liabilities | 9 | **7** | 14 |
| Other liabilities | | **197** | 202 |
| Deferred income tax liabilities | | **220** | 200 |
| | | **3,617** | 3,261 |
| **Equity** | | | |
| Capital stock | | **490** | 490 |
| Contributed surplus | | **15** | 16 |
| Retained earnings | 3 | **1,085** | 997 |
| Accumulated other comprehensive income (loss) | | **(12)** | 2 |
| **Equity attributable to Shareholders** | | **1,578** | 1,505 |
| Non-controlling interests | | **174** | 179 |
| **Total equity** | | **1,752** | 1,684 |
| | | **5,369** | 4,945 |

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

# CONSOLIDATED STATEMENTS OF EARNINGS

| (in millions of Canadian dollars, except per common share amounts and number of common shares) (unaudited) | NOTE | For the 3-month periods ended September 30, 2019 | 2018 | For the 9-month periods ended September 30, 2019 | 2018 |
|---|---|---|---|---|---|
| **Sales** | 7 | **1,264** | 1,175 | **3,769** | 3,453 |
| **Cost of sales and expenses** | | | | | |
| Cost of sales (including depreciation and amortization of $73 million for 3-month period (2018 — $61 million) and $212 million for 9-month period (2018 — $174 million)) | 3 | **1,071** | 1,004 | **3,210** | 2,953 |
| Selling and administrative expenses | | **105** | 96 | **320** | 301 |
| Gain on acquisitions, disposals and others | 5 and 6 | **(49)** | — | **(56)** | (66) |
| Impairment charges and restructuring costs | 6 | **1** | — | **11** | — |
| Foreign exchange gain | | **—** | (1) | **(1)** | (2) |
| Loss (gain) on derivative financial instruments | | **1** | (2) | **(4)** | 4 |
| | | **1,129** | 1,097 | **3,480** | 3,190 |
| **Operating income** | | **135** | 78 | **289** | 263 |
| Financing expense | 3 | **24** | 21 | **74** | 60 |
| Interest expense on employee future benefits and other liabilities | 6 | **24** | 3 | **48** | 10 |
| Foreign exchange gain on long-term debt and financial instruments | | **—** | (3) | **(7)** | (4) |
| Fair value revaluation gain on investments | | **—** | — | **—** | (5) |
| Share of results of associates and joint ventures | | **(2)** | (3) | **(6)** | (7) |
| **Earnings before income taxes** | | **89** | 60 | **180** | 209 |
| **Provision for income taxes** | | **12** | 17 | **30** | 57 |
| **Net earnings including non-controlling interests for the period** | | **77** | 43 | **150** | 152 |
| **Net earnings attributable to non-controlling interests** | | **7** | 7 | **25** | 28 |
| **Net earnings attributable to Shareholders for the period** | | **70** | 36 | **125** | 124 |
| **Net earnings per common share** | | | | | |
| Basic | | **$ 0.74** | $ 0.38 | **$ 1.33** | $ 1.31 |
| Diluted | | **$ 0.73** | $ 0.37 | **$ 1.31** | $ 1.27 |
| **Weighted average basic number of common shares outstanding** | | **93,860,367** | 94,469,465 | **93,886,909** | 94,704,999 |
| **Weighted average number of diluted common shares** | | **95,519,226** | 96,780,412 | **95,437,252** | 97,194,029 |

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | For the 3-month periods ended September 30, | | For the 9-month periods ended September 30, | |
|---|---|---|---|---|
| (in millions of Canadian dollars) (unaudited) | **2019** | 2018 | **2019** | 2018 |
| **Net earnings including non-controlling interests for the period** | **77** | 43 | **150** | 152 |
| **Other comprehensive income (loss)** | | | | |
| **Items that may be reclassified subsequently to earnings** | | | | |
| **Translation adjustments** | | | | |
| Change in foreign currency translation of foreign subsidiaries | **1** | (26) | **(57)** | 24 |
| Change in foreign currency translation related to net investment hedging activities | **(3)** | 15 | **32** | (15) |
| **Cash flow hedges** | | | | |
| Change in fair value of foreign exchange forward contracts | **—** | — | **1** | (1) |
| Change in fair value of interest rate swaps | **—** | — | **(1)** | 1 |
| Change in fair value of commodity derivative financial instruments | **1** | 2 | **(1)** | 5 |
| **Recovery of (provision for) income taxes** | **—** | (2) | **—** | 1 |
| | **(1)** | (11) | **(26)** | 15 |
| **Items that are not released to earnings** | | | | |
| Actuarial gain (loss) on employee future benefits | **2** | 8 | **(13)** | 13 |
| Recovery (provision) of income taxes | **—** | (2) | **3** | (3) |
| | **2** | 6 | **(10)** | 10 |
| **Other comprehensive income (loss)** | **1** | (5) | **(36)** | 25 |
| **Comprehensive income including non-controlling interests for the period** | **78** | 38 | **114** | 177 |
| **Comprehensive income attributable to non-controlling interests for the period** | **4** | 3 | **13** | 28 |
| **Comprehensive income attributable to Shareholders for the period** | **74** | 35 | **101** | 149 |

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

# CONSOLIDATED STATEMENTS OF EQUITY

**For the 9-month period ended September 30, 2019**

| (in millions of Canadian dollars) (unaudited) | NOTE | CAPITAL STOCK | CONTRIBUTED SURPLUS | RETAINED EARNINGS | ACCUMULATED OTHER COMPREHENSIVE LOSS | TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS | NON-CONTROLLING INTERESTS | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|
| **Balance - Beginning of period** | | **490** | **16** | **1,000** | **2** | **1,508** | **180** | **1,688** |
| Business combination | 5 | **—** | **—** | **(3)** | **—** | **(3)** | **(4)** | **(7)** |
| **Adjusted Balance - Beginning of period** | | **490** | **16** | **997** | **2** | **1,505** | **176** | **1,681** |
| New IFRS adoption | 3 | **—** | **—** | **(9)** | **—** | **(9)** | **—** | **(9)** |
| **Adjusted balance - Beginning of period** | | **490** | **16** | **988** | **2** | **1,496** | **176** | **1,672** |
| Comprehensive income | | | | | | | | |
| Net earnings | | **—** | **—** | **125** | **—** | **125** | **25** | **150** |
| Other comprehensive loss | | **—** | **—** | **(10)** | **(14)** | **(24)** | **(12)** | **(36)** |
| | | **—** | **—** | **115** | **(14)** | **101** | **13** | **114** |
| Dividends | | **—** | **—** | **(15)** | **—** | **(15)** | **(14)** | **(29)** |
| Issuance of common shares upon exercise of stock options | | **5** | **(1)** | **—** | **—** | **4** | **—** | **4** |
| Redemption of common shares | | **(5)** | **—** | **(3)** | **—** | **(8)** | **—** | **(8)** |
| Disposal of a subsidiary | 5 | **—** | **—** | **—** | **—** | **—** | **(1)** | **(1)** |
| **Balance - End of period** | | **490** | **15** | **1,085** | **(12)** | **1,578** | **174** | **1,752** |

For the 9-month period ended September 30, 2018

| (in millions of Canadian dollars) (unaudited) | NOTE | CAPITAL STOCK | CONTRIBUTED SURPLUS | RETAINED EARNINGS | ACCUMULATED OTHER COMPREHENSIVE LOSS | TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS | NON-CONTROLLING INTERESTS | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|
| **Balance - Beginning of period** | | 492 | 16 | 982 | (35) | 1,455 | 146 | 1,601 |
| New IFRS adoption | 3 | — | — | (2) | 2 | — | — | — |
| **Adjusted Balance - Beginning of period** | | 492 | 16 | 980 | (33) | 1,455 | 146 | 1,601 |
| Comprehensive income | | | | | | | | |
| Net earnings | | — | — | 124 | — | 124 | 28 | 152 |
| Other comprehensive income | | — | — | 10 | 15 | 25 | — | 25 |
| | | — | — | 134 | 15 | 149 | 28 | 177 |
| Dividends | | — | — | (11) | — | (11) | (12) | (23) |
| Stock options expense | | — | 1 | — | — | 1 | — | 1 |
| Issuance of common shares upon exercise of stock options | | 5 | (1) | — | — | 4 | — | 4 |
| Redemption of common shares | | (7) | — | (12) | — | (19) | — | (19) |
| Capital contribution from a non-controlling interest | | — | — | — | — | — | 1 | 1 |
| **Balance - End of period** | | 490 | 16 | 1,091 | (18) | 1,579 | 163 | 1,742 |

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| (in millions of Canadian dollars) (unaudited) | NOTE | For the 3-month periods ended September 30, 2019 | 2018 | For the 9-month periods ended September 30, 2019 | 2018 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Net earnings attributable to Shareholders for the period | | **70** | 36 | **125** | 124 |
| Adjustments for: | | | | | |
| Financing expense and interest expense on employee future benefits and other liabilities | | **48** | 24 | **122** | 70 |
| Depreciation and amortization | | **73** | 61 | **212** | 174 |
| Gain on acquisitions, disposals and others | 5 and 6 | **(53)** | — | **(59)** | (66) |
| Impairment charges and restructuring costs | 6 | **1** | — | **6** | — |
| Unrealized loss (gain) on derivative financial instruments | | **1** | (2) | **(4)** | 5 |
| Foreign exchange gain on long-term debt and financial instruments | | **—** | (3) | **(7)** | (4) |
| Provision for income taxes | | **12** | 17 | **30** | 57 |
| Fair value revaluation gain on investments | | **—** | — | **—** | (5) |
| Share of results of associates and joint ventures | | **(2)** | (3) | **(6)** | (7) |
| Net earnings attributable to non-controlling interests | | **7** | 7 | **25** | 28 |
| Net financing expense paid | | **(42)** | (39) | **(101)** | (94) |
| Net income taxes paid | | **(12)** | (6) | **(14)** | (4) |
| Dividends received | | **1** | 3 | **3** | 4 |
| Employee future benefits and others | | **—** | (3) | **(22)** | (10) |
| | | **104** | 92 | **310** | 272 |
| Changes in non-cash working capital components | | **53** | 42 | **(13)** | 16 |
| | | **157** | 134 | **297** | 288 |
| **Investing activities** | | | | | |
| Investments in associates and joint ventures | | **—** | — | **1** | (2) |
| Payments for property, plant and equipment | | **(66)** | (124) | **(185)** | (274) |
| Proceeds from disposals of property, plant and equipment | | **19** | — | **21** | 82 |
| Change in intangible and other assets | | **(1)** | (4) | **(3)** | (11) |
| Net cash acquired (paid) in business combinations | 5 | **(300)** | — | **(314)** | 3 |
| Proceeds on disposals of a subsidiary, net of cash disposed | 5 | **9** | — | **9** | — |
| | | **(339)** | (128) | **(471)** | (202) |
| **Financing activities** | | | | | |
| Bank loans and advances | | **(2)** | (1) | **(2)** | (16) |
| Change in credit facilities | | **252** | 5 | **317** | 15 |
| Increase in other long-term debt | | **—** | 54 | **7** | 65 |
| Payments of other long-term debt | | **(15)** | (7) | **(94)** | (62) |
| Settlement of derivative financial instruments | | **—** | — | **—** | (1) |
| Issuance of common shares upon exercise of stock options | | **4** | — | **4** | 4 |
| Redemption of common shares | | **(3)** | (7) | **(8)** | (19) |
| Dividends paid to non-controlling interests | | **(4)** | (2) | **(14)** | (12) |
| Capital contribution from non-controlling interests | | **—** | — | **—** | 1 |
| Dividends paid to the Corporation's Shareholders | | **(8)** | (3) | **(15)** | (11) |
| | | **224** | 39 | **195** | (36) |
| **Change in cash and cash equivalents during the period** | | **42** | 45 | **21** | 50 |
| **Currency translation on cash and cash equivalents** | | **(2)** | (3) | **(6)** | — |
| **Cash and cash equivalents - Beginning of the period** | | **98** | 97 | **123** | 89 |
| **Cash and cash equivalents - End of the period** | | **138** | 139 | **138** | 139 |

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

## SEGMENTED INFORMATION

The Corporation analyzes the performance of its operating segments based on their operating income before depreciation and amortization, which is not a measure of performance under International Financial Reporting Standards (IFRS); however, the chief operating decision-maker (CODM) uses this performance measure to assess the operating performance of each reportable segment. Earnings for each segment are prepared on the same basis as those of the Corporation. Intersegment operations are recorded on the same basis as sales to third parties, which are at fair market value. The accounting policies of the reportable segments are the same as the Corporation's accounting policies described in Notes 2 and 3.

The Corporation's operating segments are reported in a manner consistent with the internal reporting provided to the CODM. The Chief Executive Officer has authority for resource allocation and management of the Corporation's performance and is therefore the CODM.

The Corporation's operations are managed in four segments: Containerboard, Boxboard Europe and Specialty Products (which constitutes the Corporation's Packaging Products) and Tissue Papers.

SALES

| | For the 3-month periods ended September 30, | | For the 9-month periods ended September 30, | |
|---|---|---|---|---|
| (in millions of Canadian dollars) (unaudited) | **2019** | 2018 | **2019** | 2018 |
| **Packaging Products** | | | | |
| Containerboard | **473** | 472 | **1,376** | 1,368 |
| Boxboard Europe | **256** | 210 | **805** | 688 |
| Specialty Products | **176** | 164 | **565** | 487 |
| Intersegment sales | **(16)** | (21) | **(53)** | (68) |
| | **889** | 825 | **2,693** | 2,475 |
| **Tissue Papers** | **387** | 364 | **1,112** | 1,012 |
| Intersegment sales and Corporate Activities | **(12)** | (14) | **(36)** | (34) |
| | **1,264** | 1,175 | **3,769** | 3,453 |

OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION

| | For the 3-month periods ended September 30, | | For the 9-month periods ended September 30, | |
|---|---|---|---|---|
| (in millions of Canadian dollars) (unaudited) | **2019** | 2018 | **2019** | 2018 |
| **Packaging Products** | | | | |
| Containerboard | **120** | 116 | **345** | 359 |
| Boxboard Europe | **25** | 19 | **84** | 77 |
| Specialty Products | **12** | 15 | **36** | 31 |
| | **157** | 150 | **465** | 467 |
| **Tissue Papers** | **76** | 5 | **97** | 25 |
| **Corporate Activities** | **(25)** | (16) | **(61)** | (55) |
| **Operating income before depreciation and amortization** | **208** | 139 | **501** | 437 |
| Depreciation and amortization | **(73)** | (61) | **(212)** | (174) |
| Financing expense and interest expense on employee future benefits and other liabilities | **(48)** | (24) | **(122)** | (70) |
| Foreign exchange gain on long-term debt and financial instruments | **—** | 3 | **7** | 4 |
| Fair value revaluation gain on investments | **—** | — | **—** | 5 |
| Share of results of associates and joint ventures | **2** | 3 | **6** | 7 |
| **Earnings before income taxes** | **89** | 60 | **180** | 209 |

PAYMENTS FOR PROPERTY, PLANT AND EQUIPMENT

| | For the 3-month periods ended September 30, | | For the 9-month periods ended September 30, | |
|---|---|---|---|---|
| (in millions of Canadian dollars) (unaudited) | **2019** | 2018 | **2019** | 2018 |
| **Packaging Products** | | | | |
| Containerboard | **19** | 76 | **55** | 216 |
| Boxboard Europe | **13** | 15 | **41** | 23 |
| Specialty Products | **12** | 8 | **26** | 25 |
| | **44** | 99 | **122** | 264 |
| **Tissue Papers** | **27** | 29 | **74** | 57 |
| **Corporate Activities** | **11** | 4 | **25** | 13 |
| **Total acquisitions** | **82** | 132 | **221** | 334 |
| Proceeds from disposals of property, plant and equipment | **(19)** | — | **(21)** | (82) |
| Right-of-use assets and included in other debts and liabilities | **(9)** | (2) | **(42)** | (68) |
| | **54** | 130 | **158** | 184 |
| Acquisitions for property, plant and equipment included in “Trade and other payables” | | | | |
| Beginning of period | **24** | 14 | **37** | 28 |
| End of period | **(31)** | (20) | **(31)** | (20) |
| **Payments for property, plant and equipment net of proceeds from disposals** | **47** | 124 | **164** | 192 |

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(tabular amounts in millions of Canadian dollars)

## NOTE 1
### GENERAL INFORMATION

Cascades Inc. and its subsidiaries (together "Cascades" or the "Corporation") produce, convert and market packaging and tissue products composed mainly of recycled fibres. Cascades Inc. is incorporated and domiciled in Québec, Canada. The address of its registered office is 404 Marie-Victorin Boulevard, Kingsey Falls. Its common shares are listed on the Toronto Stock Exchange.

The Board of Directors approved the unaudited condensed interim consolidated financial statements on November 7, 2019.

## NOTE 2
### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements, including IAS 34 *Interim Financial Reporting*. The unaudited condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) as set forth in Part I of the Chartered Professional Accountants of Canada (CPA Canada) Handbook – Accounting, which incorporates IFRS as issued by the IASB.

Except as described in Note 3, the accounting policies applied in these unaudited condensed interim consolidated financial statements are the same as those applied in the audited consolidated financial statements for the year ended December 31, 2018. Also, income taxes in the interim periods are accrued using the tax rate that would be applicable to expected annual earnings or loss for each jurisdiction.

## NOTE 3
### CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

#### NEW IFRS ADOPTED

The Corporation adopted IFRS 16 *Leases* on January 1, 2019.

#### IFRS 16 *LEASES*
**Accounting policy**

In January 2016, the IASB released IFRS 16 *Leases*, which supersedes IAS 17 *Leases*, and the related interpretations on leases: IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases - Incentives* and SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*. The Standard is effective for annual periods beginning on or after January 1, 2019.

The new standard requires lessees to recognize a lease liability and a corresponding right-of-use asset at the date at which the leased asset is available for use. Subsequently, lease payments are allocated between the liability and finance cost. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability equals the net present value of the lease payments discounted using the interest rate implicit in the lease or the Corporation's incremental borrowing rate. The Corporation's incremental borrowing rate is determined for each lease and is a risk-free interest rate taking into account the Corporation's credit rating, as well as the agreement's currency, country and term.

Right-of-use assets are measured at cost, which includes the initial lease liability amount, lease payments made at or before the lease commencement date less lease incentives, initial direct costs and restoration costs.

The Corporation uses the low-value, exception as well as the short-term exception, on all categories of assets, except buildings.

### Impact of adoption

The Corporation applied IFRS 16 *Leases* retrospectively with no restatement of comparative information as allowed by the Standard. At the date of initial application, lease liability for leases previously classified as operating leases under IAS 17 *Leases* equals the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Corporation's incremental borrowing rate, as described above. As for the underlying right-of-use asset, the Corporation elected to measure it at an amount equal to the lease liability.

The Corporation also used the following practical expedients allowed by IFRS 16:

- Account for leases ending in 2019 as short-term leases;
- Exclude initial direct costs from the measurement of the right-of-use asset;
- Use hindsight in determining the lease term where the contract includes extension or termination options;
- Rely on previous assessment of whether a lease is onerous.

Adjustment to the consolidated opening retained earnings is related to an impairment charge of $12 million, net of a deferred income tax revenue of $3 million, that the Corporation recorded on the right-of-use assets of units whose assets are valued at fair market value.

The application of IFRS 16 *Leases* had the following impacts on the January 1, 2019 consolidated balance sheet:

| (in millions of Canadian dollars) | Balance as of December 31, 2018[1] | IFRS16 Adjustment | January 1, 2019 Adjusted balance |
|---|---|---|---|
| Property, plant and equipment (including right-of-use assets) | 2,505 | 87 | 2,592 |
| Current portion of long-term debt | 55 | 16 | 71 |
| Long-term debt | 1,821 | 83 | 1,904 |
| Deferred income tax liabilities | 200 | (3) | 197 |
| Opening retained earnings | 997 | (9) | 988 |

[1] Including business combination purchase price retrospective adjustment (see Note 5 for more details).

The impact of adoption of IFRS16 *Leases* on the 2019 third quarter and year-to-date consolidated statement of earnings is as follows:

| (in millions of Canadian dollars) | For the 3-month period ended September 30, 2019 | For the 9-month period ended September 30, 2019 |
|---|---|---|
| Increase in financing expense | — | 2 |
| Increase in depreciation and amortization | 7 | 20 |
| Increase in operating income before depreciation and amortization | 7 | 22 |

## NOTE 4
### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of unaudited condensed interim consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Critical accounting estimates and judgments are detailed in the audited consolidated financial statements as at and for the year ended December 31, 2018.

## NOTE 5
### BUSINESS COMBINATIONS

### 2019
### Orchids Paper Products

On September 13, 2019, the Corporation acquired the activities of Orchids Paper Products Company ("Orchids") for a total consideration of $309 million, which consisted of US$237 million ($314 million) in cash, less $3 million for a purchase price adjustment and the settlement of a net liability of $2 million with the acquiree prior to the transaction. The Corporation recorded a bargain purchase gain on acquisition of $52 million before transaction fees of $8 million.

The assets include the Barnwell, South Carolina and Pryor, Oklahoma Tissue operations. As part of the transaction, the Corporation acquired all of the outstanding units of OPP Acquisition Mexico S. de R.L. de C.V., designated as assets held-for-sale, which were resold the same day for US$14 million ($19 million), of which US$10 million ($14 million) has been received as of September 30, 2019.

This acquisition will accelerate the modernization of the Corporation's U.S. consumer product tissue platform by strengthening our operations and improving our geographic positioning.

The purchase price allocation is preliminary as of September 30, 2019. Assets acquired and liabilities assumed were as follows:

| | | 2019 |
|---|---|---|
| | BUSINESS SEGMENT: | Tissue Papers |
| (in millions of Canadian dollars) | ACQUIRED COMPANIES: | Orchids |
| Fair values of identifiable assets acquired and liabilities assumed: | | |
| Accounts receivable | | **14** |
| Inventories | | **22** |
| Assets held-for-sale | | **19** |
| Property, plant and equipment | | **342** |
| Other assets | | **1** |
| Total assets | | **398** |
| Trade and other payables | | **(13)** |
| Long-term debt | | **(7)** |
| Deferred income tax liabilities | | **(17)** |
| Net assets acquired | | **361** |
| Bargain purchase gain on acquisition | | **(52)** |
| | | **309** |
| Cash paid | | **314** |
| Purchase price adjustment | | **(3)** |
| Settlement of liability with acquiree before the transaction | | **(2)** |
| Total consideration | | **309** |

The acquired business, since the date of acquisition, represents sales amounting to $8 million on a stand-alone basis ($6 million on a consolidated basis) and the contribution to net earnings attributable to Shareholders is nil on a stand-alone basis ($52 million on a consolidated basis, including the gain on business combination).

The acquisition occurred two weeks before the quarter end, resulting in a preliminary purchase price allocation and disclosures as of September 30, 2019. The disclosures are incomplete and reflect the best estimate, as of the reporting date, based on available information and progress of the work on the purchase price allocation.

### 2018

### Urban Forest Products LLC, Clarion Packaging LLC and Falcon Packaging LLC

On December 6, 2018, the Corporation acquired all the assets of Urban Forest Products LLC (UFP) and Clarion Packaging LLC (Clarion), respectively located in Brook, Indiana, and Clarion, Iowa. Both plants manufacture moulded pulp protective packaging that primarily serves the egg and quick service restaurant industries. Concurrently, the Specialty Products segment also acquired 75% of the membership units of Falcon Packaging LLC, a leader in the distribution of egg and other packaging located in Ohio, Iowa and Georgia. These acquisitions are in line with the Corporation's objective to expand moulded pulp activities, which produce a recycled, recyclable, compostable and biodegradable packaging product that offers highly interesting opportunities against a backdrop of expanding interest in the circular economy. Total consideration for the business acquisition was a cash consideration of US$38 million ($51 million). These acquisitions were treated as a single business combination since the substance of the transaction was the acquisition of integrated businesses.

The $10 million fair value of accounts receivables is equal to gross contractual cash flows, which were all expected to be collected at the time of the acquisition.

The purchase price allocation was finalized during the third quarter of 2019. Assets acquired and liabilities assumed were as follows:

| | 2018 | | |
|---|---|---|---|
| BUSINESS SEGMENT: | Specialty Products | | |
| ACQUIRED COMPANIES: | UFP, Clarion & Falcon Packaging | | |
| (in millions of Canadian dollars) | Preliminary allocation | Adjustments | Final allocation |
| Fair values of identifiable assets acquired and liabilities assumed: | | | |
| Accounts receivable | 10 | — | 10 |
| Inventories | 8 | 1 | 9 |
| Property, plant and equipment | 48 | (1) | 47 |
| Client list | 10 | (7) | 3 |
| Trademark | — | 1 | 1 |
| Total assets | 76 | (6) | 70 |
| Bank loans and advances | (2) | — | (2) |
| Trade and other payables | (9) | — | (9) |
| Long-term debt | (4) | — | (4) |
| Other liabilities | — | (3) | (3) |
| Deferred income tax liabilities | (1) | 1 | — |
| Net assets acquired | 60 | (8) | 52 |
| Non-controlling interests | (5) | 4 | (1) |
| Gain on acquisition | (3) | 3 | — |
| | 52 | (1) | 51 |
| Cash paid | 51 | — | 51 |
| Non-cash provision for working capital adjustment | 1 | (1) | — |
| Total consideration | 52 | (1) | 51 |

### 2018
### Barcelona Cartonboard S.A.U.

On October 31, 2018, the Corporation acquired Barcelona Cartonboard S.A.U., a paperboard manufacturer on the Iberian Peninsula. The consideration for the acquisition consisted of cash totaling €36 million ($54 million) and €10 million ($14 million) of net debt assumed. The excess of the consideration over the net fair value of the assets acquired and the liabilities assumed resulted in a non-deductible goodwill of $1 million and has been allocated to the Boxboard Europe segment. The acquisition will allow Reno de Medici to strengthen its presence in a well-known market, optimize its products portfolio and further improve the level of service to current customers and new ones, as the Barcelona plant is located near some of the major European converters.

The $37 million fair value of total accounts receivables acquired is equal to the gross contractual cash flows, which were all expected to be collected at the time of the acquisition.

The purchase price allocation for Barcelona Cartonboard S.A.U. is still preliminary as of September 30, 2019. There was no adjustment recorded on the preliminary purchase price allocation during the quarter.

## DISPOSAL

### 2019
### Cascades Europe S.A.S.

On September 30, 2019, the Corporation sold its participation of 90% in Cascades Europe S.A.S. which owns Cascades Rollpack, a cardboard packaging converter for the paper industry, for a total consideration of €10 million ($15 million), including €7 million ($10 million) of cash received as well as €4 million ($6 million) of long-term debt assumed and €1 million ($1 million) of cash balance disposed. A loss on disposal of $1 million was recorded.

Assets and liabilities at the time of disposal were as follows:

| (in millions of Canadian dollars) | | 2019 |
|---|---|---|
| | BUSINESS SEGMENT: | Specialty Products |
| | DISPOSAL COMPANIES: | Cascades Europe S.A.S. |
| Assets and liabilities disposed: | | |
| Cash and cash equivalents | | 1 |
| Accounts receivable | | 7 |
| Inventories | | 9 |
| Property, plant and equipment | | 9 |
| Total assets | | 26 |
| Trade and other payables | | (8) |
| Long-term debt | | (6) |
| Net assets disposed | | 12 |
| Non-controlling interests | | (1) |
| Loss on disposal | | (1) |
| Total consideration received | | 10 |

## NOTE 6

### LOSS (GAIN) ON ACQUISITIONS, DISPOSALS AND OTHERS

For the 9-month period ended September 30, 2019, the Corporation recorded the following losses and gains:

| (in millions of Canadian dollars) | For the 3-month periods ended September 30, | For the 9-month periods ended September 30, |
|---|---|---|
| | 2019 | 2019 |
| Containerboard | (2) | (12) |
| Specialty Products | 1 | 1 |
| Tissue Papers | (52) | (52) |
| Corporate Activities | 4 | 7 |
| | (49) | (56) |

The lease on our Bear Island facility in Virginia was terminated by the lessee. As such, the Containerboard segment recorded a gain of $10 million in the first quarter following the reversal of liabilities related to lease incentives to the lessee and to accrued carrying costs.

An environmental provision of $4 million related to a plant sold and for which the Corporation retained environmental responsibility was recorded in the second quarter by the Corporate Activities. The Corporate Activities incurred $8 million in fees as part of the Orchids acquisition ($4 million in the third quarter). See Note 5 for more details.

In the second quarter, the Corporate Activities recorded a gain of $5 million on the settlement of litigation in compensation for a flooding that occurred years ago at our fine paper mill in St-Jérôme, which has since been sold. In the third quarter, the Containerboard packaging segment recorded a $2 million gain from the sale of a building and piece of land of a closed plant.

The Specialty Products segment concluded the sale of its France plant, which converts cardboard into packaging for the paper industry, and recorded a loss of $1 million in the third quarter. See Note 5 for more details. The Tissue Papers segment recorded a $52 million gain following the acquisition Orchids Paper Products Company activities in the third quarter.

### IMPAIRMENT CHARGES AND RESTRUCTURING COSTS

For the 9-month period ended September 30, 2019, the Corporation recorded the following impairment charges and restructuring costs:

| | For the 3-month period ended September 30, 2019 | | For the 9-month period ended September 30, 2019 | |
|---|---|---|---|---|
| (in millions of Canadian dollars) | Impairment charges | Restructuring costs | Impairment charges | Restructuring costs |
| Containerboard | — | — | 3 | — |
| Specialty Products | 1 | — | 1 | 1 |
| Tissue Papers | — | — | 1 | 5 |
| | 1 | — | 5 | 6 |

As a result of the lease termination on our Bear Island facility, described above, the Containerboard segment recorded in the first quarter a $3 million impairment charge on some assets that will not be used in the future.

The Specialty Products segment recorded $1 million of restructuring costs stemming from the closure, in the first quarter, of its Trois-Rivières, Québec, plant manufacturing felt backing for flooring. In the third quarter, the segment incurred an impairment charge of $1 million on some equipment of this plant.

In the first quarter, the Tissue Papers segment recorded a $1 million impairment charge on some equipment, in addition to $4 million of restructuring costs related to the forthcoming closure of two tissue paper machines in Ontario and changes in the segment's senior management. During the second quarter, the segment incurred an additional $1 million of restructuring costs related to these closures.

### FINANCING EXPENSE AND INTEREST ON EMPLOYEE FUTURE BENEFITS AND OTHER LIABILITIES

The Corporation recorded an unrealized loss of $1 million (loss of $7 million in the third quarter) on the fair value revaluation of a one-time option granted to White Birch to purchase an interest of up to 10% in the Bear Island containerboard mill project.

## NOTE 7

### REVENUE

Information by geographic segment is as follows:

SALES

For the 3-month periods ended September 30,

| | Canada | | United States | | Italy | | Other countries | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in millions of Canadian dollars) | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| **Packaging Products** | | | | | | | | | | |
| Containerboard | **289** | 297 | **184** | 175 | **—** | — | **—** | — | **473** | 472 |
| Boxboard Europe | **—** | — | **—** | — | **88** | 73 | **168** | 137 | **256** | 210 |
| Specialty Products | **74** | 90 | **88** | 56 | **—** | 1 | **14** | 17 | **176** | 164 |
| Intersegment sales | **(10)** | (13) | **(6)** | (8) | **—** | — | **—** | — | **(16)** | (21) |
| | **353** | 374 | **266** | 223 | **88** | 74 | **182** | 154 | **889** | 825 |
| **Tissue Papers** | **102** | 96 | **282** | 268 | **—** | — | **3** | — | **387** | 364 |
| Intersegment sales and Corporate Activities | **(5)** | (8) | **(7)** | (6) | **—** | — | **—** | — | **(12)** | (14) |
| | **450** | 462 | **541** | 485 | **88** | 74 | **185** | 154 | **1,264** | 1,175 |

SALES

For the 9-month periods ended September 30,

| | Canada | | United States | | Italy | | Other countries | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in millions of Canadian dollars) | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| **Packaging Products** | | | | | | | | | | |
| Containerboard | **824** | 827 | **550** | 539 | **—** | — | **2** | 2 | **1,376** | 1,368 |
| Boxboard Europe | **—** | — | **—** | — | **247** | 236 | **558** | 452 | **805** | 688 |
| Specialty Products | **235** | 265 | **280** | 168 | **1** | 2 | **49** | 52 | **565** | 487 |
| Intersegment sales | **(32)** | (42) | **(21)** | (26) | **—** | — | **—** | — | **(53)** | (68) |
| | **1,027** | 1,050 | **809** | 681 | **248** | 238 | **609** | 506 | **2,693** | 2,475 |
| **Tissue Papers** | **293** | 270 | **809** | 742 | **—** | — | **10** | — | **1,112** | 1,012 |
| Intersegment sales and Corporate Activities | **(16)** | (19) | **(20)** | (15) | **—** | — | **—** | — | **(36)** | (34) |
| | **1,304** | 1,301 | **1,598** | 1,408 | **248** | 238 | **619** | 506 | **3,769** | 3,453 |

## NOTE 8
### LONG-TERM DEBT

| (in millions of Canadian dollars) | MATURITY | **September 30, 2019** | December 31, 2018 |
|---|---|---|---|
| Revolving credit facility, weighted average interest rate of 3.77% as at September 30, 2019, consists of $10 million and US $295 million (December 31, 2018 — $4 million and US$60 million) | 2023 | **401** | 86 |
| 5.50% Unsecured senior notes of $250 million | 2021 | **250** | 250 |
| 5.50% Unsecured senior notes of US$400 million | 2022 | **530** | 545 |
| 5.75% Unsecured senior notes of US$200 million | 2023 | **265** | 273 |
| Term loan of US$175 million, interest rate of 4.15% as at September 30, 2019 | 2025 | **232** | 239 |
| Other debts of subsidiaries (including lease obligations of $161 million as at September 30, 2019) | | **202** | 129 |
| Other debts without recourse to the Corporation (including lease obligations of $38 million as at September 30, 2019) | | **329** | 364 |
| | | **2,209** | 1,886 |
| Less: Unamortized financing costs | | **8** | 10 |
| Total long-term debt | | **2,201** | 1,876 |
| Less: | | | |
| Current portion of debts of subsidiaries (including lease obligations of $27 million as at September 30, 2019) | | **40** | 22 |
| Current portion of debts without recourse to the Corporation (including lease obligations of $11 million as at September 30, 2019) | | **47** | 33 |
| | | **87** | 55 |
| | | **2,114** | 1,821 |

The Corporation adopted IFRS 16 *Leases* on January 1, 2019. See Note 3 for more details.

As at September 30, 2019, the long-term debt had a fair value of $2,226 million (December 31, 2018 – $1,871 million).

On May 31, 2019, the Corporation entered into an agreement with its lenders to extend and amend its existing $750 million revolving credit facility. The amendment extends the term of the facility to July 2023. The financial conditions remain unchanged.

## NOTE 9
### FINANCIAL INSTRUMENTS

#### DETERMINING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount of consideration that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants as at the measurement date.

(i) The fair value of cash and cash equivalents, accounts receivable, notes receivable, bank loans and advances, trade and other payables and provisions approximate their carrying amounts due to their relatively short maturities and are classified as level 1 for cash and cash equivalents and level 3 for the other items.

(ii) The fair value of investment in shares is based on observable market data and is quoted on the Toronto Stock Exchange and classified as level 1.

(iii) The fair value of long-term debt and some other liabilities is based on observable market data and on the calculation of discounted cash flows. Discount rates were determined based on local government bond yields adjusted for the risks specific to each of the borrowings and for the credit market liquidity conditions and are classified as levels 1 and 3.

#### HIERARCHY OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

The following table presents information about the Corporation's financial assets and financial liabilities measured at fair value on a recurring basis as at September 30, 2019 and December 31, 2018, and indicates the fair value hierarchy of the Corporation's valuation techniques to determine such fair value. Three levels of inputs that may be used to measure fair value are:

Level 1 - Quoted prices in active markets for identical assets or liabilities

Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 - Inputs that are generally unobservable and typically reflect Management's estimates of assumptions that market participants would use in pricing the asset or liability

For commodity derivative financial instruments and foreign currency forward contracts, the Corporation classifies the fair value measurement as Level 2, as they are based mainly on observable market data. The fair value of commodity derivative financial instruments is determined using expected future cash flows based on observable data and notional quantity, with the resulting value discounted using a curve that reflects the credit risk of the Corporation or the counterparty, as applicable. The fair value of foreign currency forward contracts is determined using quoted forward exchange rates at the measurement date, with the resulting value discounted back to present values using a curve that reflects the credit risk of the Corporation or the counterparty, as applicable.

| | | | | **As at September 30, 2019** |
|---|---|---|---|---|
| (in millions of Canadian dollars) | CARRYING AMOUNT | QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1) | SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) | SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) |
| Financial assets | | | | |
| Equity investments | **1** | **1** | **—** | **—** |
| Derivative financial assets | **30** | **—** | **30** | **—** |
| | **31** | **1** | **30** | **—** |
| Financial liabilities | | | | |
| Derivative financial liabilities | **(11)** | **—** | **(11)** | **—** |
| | **(11)** | **—** | **(11)** | **—** |

| | | | | As at December 31, 2018 |
|---|---|---|---|---|
| (in millions of Canadian dollars) | CARRYING AMOUNT | QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1) | SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2) | SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) |
| Financial assets | | | | |
| Equity investments | 1 | 1 | — | — |
| Derivative financial assets | 30 | — | 30 | — |
| | 31 | 1 | 30 | — |
| Financial liabilities | | | | |
| Derivative financial liabilities | (36) | — | (36) | — |
| | (36) | — | (36) | — |

## NOTE 10
### COMMITMENTS

Capital expenditures contracted at the end of the reporting date but not yet incurred total $31 million.

## NOTE 11
### EVENTS AFTER THE REPORTING PERIOD

#### Quarterly dividend
On November 7, 2019, Cascades' Board of Directors declared a quarterly dividend of $0.08 per common share to be paid on December 5, 2019, to shareholders of record at the close of business on November 21, 2019. On November 7, 2019, dividend yield was 2.4%.

#### Tissue converting facilities closures
On October 30, 2019, the Corporation announced the closure of its Waterford, New York and Kingman, Arizona tissue converting facilities. The combined volume of these plants will be transferred to our other Tissue Papers segment facilities with additional capacity that attributable to our ongoing investments in our asset base and our recent acquisition of Orchids. Estimated closure costs, which include severances, equipment removal costs and lease liability reevaluation, will be approximately $5 million.

This report is also available on our website at: **www.cascades.com**

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