

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2020

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

Commission File Number: 001-33164

Domtar Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
234 Kingsley Park Drive
Fort Mill, SC
(Address of principal executive offices)

20-5901152
(I.R.S. Employer
Identification No.)

29715
(Zip Code)

Registrant's telephone number, including area code: (803) 802-7500

Securities registered pursuant to Section 12(b) of the Act: Common Stock, Par Value \$0.01 Per Share; Common stock traded on the New York Stock Exchange; trading symbol UFS.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES NO

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Small reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on The New York Stock Exchange on June 30, 2020, was \$1,165,096,948.

The number of shares of Registrant's Common Stock outstanding as of February 19, 2021 was 55,066,504.

Portions of the Registrant's Proxy Statement relating to the Annual Meeting of Shareholders, scheduled to be held on May 5, 2021, are incorporated by reference into Part III of this Report.

DOMTAR CORPORATION
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2020

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PART I

ITEM 1. BUSINESS

GENERAL

We design, manufacture, market and distribute a wide variety of fiber-based products, including communication papers, specialty and packaging papers. The foundation of our business is a network of wood fiber converting assets that produce paper grade, fluff and specialty pulp. Approximately 40% of our pulp production is consumed internally to manufacture paper, with the balance sold as market pulp. We are the largest integrated marketer of uncoated freesheet paper in North America serving a variety of customers, including merchants, retail outlets, stationers, printers, publishers, converters and end-users. To learn more, visit www.domtar.com.

Throughout this Annual Report on Form 10-K, unless otherwise specified, “Domtar Corporation,” “the Company,” “Domtar,” “we,” “us” and “our” refer to Domtar Corporation, its subsidiaries, as well as its investments.

2020 was a year of significant challenges for Domtar. During 2020, we undertook various strategic initiatives, including a cost reduction program, executed on our asset conversion roadmap, reviewed our strategic alternatives for our Personal Care business and faced unprecedented operating and market challenges due to the COVID-19 pandemic.

While our strategy will take some time to execute, we made good progress in 2020 that provides us with a strong foundation on which to build. We are executing on a clear plan to create long-term shareholder value by refocusing our portfolio around Paper, Pulp and Packaging. We also have begun to execute our strategic plan to enter the containerboard market with highly competitive assets and a differentiated go-to-market strategy.

Sale of Personal Care business

On January 7, 2021, we agreed to sell our Personal Care business to American Industrial Partners (AIP), for a purchase price of \$920 million in cash (the “Transaction”). The Transaction is expected to close in the first quarter of 2021. Based on its magnitude and because we are exiting the Personal Care business, the sale represents a significant strategic shift that has a material effect on our operations and financial results. Accordingly, all periods presented reflect the Personal Care business as a discontinued operation. Our Personal Care business was previously disclosed as a separate reportable segment. For more information on our discontinued operations, refer to Item 8, Financial Statements and Supplementary Data, under Note 3, “Discontinued Operations”.

Execution of our asset conversion roadmap

On August 7, 2020, we announced our decision to repurpose assets at our Kingsport, Tennessee and Ashdown, Arkansas, facilities, following a review of our manufacturing footprint. This conversion program is consistent with the roadmap that we made public in 2018. The previously announced multi-mill conversion roadmap is designed to adjust our paper capacity to align with our customer demand. Through this process, we have identified up to four large scale paper machine/mill repurposing projects that can produce 2.5 million tons of containerboard and/or 570,000 ADMT of additional market softwood and fluff pulp. We plan to enter the linerboard market with the conversion of our Kingsport paper machine. Once in full operation, the mill will produce and market approximately 600,000 tons annually of high-quality recycled linerboard and medium, providing us with a strategic footprint in a growing adjacent market. The conversion is expected to be completed by the fourth quarter of 2022. We expect to complete the conversion of our Ashdown mill to 100% softwood and fluff pulp in early 2021. The Ashdown mill will produce additional market hardwood pulp until it converts the fiberline to softwood pulp. The conversion of the fiberline to 100% softwood is necessary for an eventual expansion into containerboard. Following the fiberline conversion, Ashdown will have annual production capacity of 775,000 tons of fluff and softwood pulp.

Cost reduction program

On August 7, 2020, we announced the implementation of a cost reduction program, targeting \$200 million in annual run-rate cost savings to be realized by the end of 2021. The goal of the program is to build a stronger business operation, enhance our cost efficiency, improve operating margins and maximize productivity and cash flow. For more information on our cost reduction program, refer to “Cost Reduction Program” section included in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Purchase of Appvion Point of Sale business

On April 27, 2020, we completed the acquisition of the Point of Sale paper business from Appvion Operations, Inc. The business includes the coater and related equipment located at Appvion’s West Carrollton, Ohio, facility as well as a license for all corresponding intellectual property. The results of this business have been included in the consolidated financial statements as of April 27, 2020. For more information, refer to Item 8, Financial Statements and Supplementary Data, under Note 4 “Acquisition of Business”.

COVID-19

First identified in people in late 2019, COVID-19 spread rapidly throughout the world and, in March 2020, the World Health Organization characterized COVID-19 as a pandemic. With the unprecedented and rapid spread of COVID-19 and social distancing measures implemented throughout the world due to the pandemic, this virus has had a profound impact on human health, the global economy and society in general. We are actively monitoring the impact of COVID-19 on all aspects of our business, including our employees, operations, customers, suppliers, liquidity and capital resources. The health and safety of our employees and customers remains our top priority.

Prior to mid-March 2020, our results were largely in line with expectations. We began to experience a decline in shipment of paper in March 2020, when volume declined in response to shelter-in-place orders and other market restrictions. Overall, for 2020, our paper shipments were lower by approximately 19% when compared to 2019. COVID-19 is discussed in more detail under the COVID-19 section of the Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations.

AVAILABILITY OF INFORMATION

In this Annual Report on Form 10-K, we incorporate by reference certain information contained in other documents filed with the Securities and Exchange Commission (“SEC”) and we refer you to such information. We file annual, quarterly and current reports and other information with the SEC. The SEC maintains a website at www.sec.gov that contains these filings. You also may access, free of charge, our reports filed with the SEC through our website. Reports filed with the SEC will be available through our website as soon as reasonably practicable after they are filed. The information contained on or connected to our website, www.domtar.com, is not incorporated by reference into this Form 10-K and should in no way be construed as a part of this or any other report that we filed with the SEC.

OUR CORPORATE STRUCTURE

At December 31, 2020, Domtar Corporation had a total of 55,194,538 shares of common stock issued and outstanding.

Our common stock is traded on the New York Stock Exchange and the Toronto Stock Exchange under the symbol “UFS”.

Information regarding our common stock is included in Item 8, Financial Statements and Supplementary Data under Note 21 “Shareholders’ Equity”.

OUR BUSINESS OVERVIEW

Following our agreement to sell our Personal Care business, we now operate as a single reportable segment as described below, which also represents our only operating segment.

Pulp and Paper: Consists of the design, manufacturing, marketing and distribution of communication, specialty and packaging papers, as well as softwood, hardwood and fluff pulps and high quality airlaid and ultrathin laminated cores.

Information regarding our reportable segment is included in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, as well as Item 8, Financial Statements and Supplementary Data under Note 24 “Segment Disclosures”. Geographic information is also included under Note 24 of the Financial Statements and Supplementary Data.

Our Manufacturing Operations

We produce approximately 3.8 million metric tons of softwood, fluff and hardwood pulp at 11 mills. Approximately 40% of our pulp is consumed internally to manufacture paper, with the balance being sold as market pulp. We also purchase limited papergrade pulp from third parties for specific grades and to optimize the logistics of our pulp capacity while reducing transportation costs.

We are the largest integrated manufacturer and marketer of uncoated freesheet paper in North America. We have seven integrated pulp and paper mills (five in the United States and two in Canada), with an annual paper production capacity of approximately 2.2 million tons of uncoated freesheet paper. Our paper manufacturing operations are supported by 11 converting and forms manufacturing operations (including a network of 9 plants located offsite from our paper making operations). Approximately 68% of our paper production capacity is in the United States and 32% is located in Canada.

We produce market pulp in excess of our internal requirements at our pulp and paper mills in Espanola, Hawesville, Windsor, Marlboro and Nekoosa. We also produce papergrade, fluff and specialty pulps at our four stand-alone pulp mills in Ashdown, Kamloops, Dryden and Plymouth. We can sell approximately 2.1 million metric tons of pulp per year depending on market conditions. Approximately 58% of our pulp production capacity is in the U.S. and 42% is in Canada.

The table below lists our operating pulp and paper mills and their annual production capacity:

PRODUCTION FACILITY (1)	Fiberline Pulp Capacity		Saleable Paper		
	# lines	('000 ADMT) (2)	# machines	Category (3)	('000 ST) (4)
Uncoated freesheet					
Windsor, Quebec	1	447	2	Communication	642
Hawesville, Kentucky	1	412	2	Communication	596
Marlboro, South Carolina	1	320	1	Specialty & Packaging	274
Johnsonburg, Pennsylvania	1	228	2	Communication	344
Nekoosa, Wisconsin	1	155	3	Specialty & Packaging	168
Rothschild, Wisconsin	1	65	1	Communication	131
Espanola, Ontario	1	280	2	Specialty & Packaging	69
<i>Total Uncoated freesheet</i>	<i>7</i>	<i>1,907</i>	<i>13</i>		<i>2,224</i>
Pulp					
Ashdown, Arkansas (5)	3	775			
Kamloops, British Columbia	1	408	—		—
Dryden, Ontario	1	327	—		—
Plymouth, North Carolina	1	390	—		—
<i>Total Pulp</i>	<i>6</i>	<i>1,900</i>	<i>—</i>		<i>—</i>
<i>Total</i>	<i>13</i>	<i>3,807</i>	<i>13</i>		<i>2,224</i>
Total Trade Pulp (6)		2,149			

- (1) On August 7, 2020, we announced the permanent closure of the uncoated freesheet manufacturing at our Kingsport, Tennessee and Port Huron, Michigan mills, and the remaining paper machine at our Ashdown, Arkansas mill. Our Kingsport and Ashdown paper machines, were idled in April 2020, while our Port Huron mill is expected to shut down by the end of the first quarter of 2021. These closures are reflected in the table above.
- (2) ADMT refers to an air dry metric ton and ST refers to short ton.
- (3) Represents the majority of the capacity at each of these facilities.
- (4) Paper capacity is based on an operating schedule of 360 days and the production at the winder.
- (5) We will complete the conversion of our Ashdown mill to 100% softwood and fluff pulp in early 2021. The mill will produce additional market hardwood pulp until it converts the fiberline to softwood pulp. This conversion is reflected in the table above.
- (6) Estimated third-party shipments dependent upon market conditions.

We plan to enter the containerboard market with the conversion of our Kingsport paper machine. Once in full operation, the mill will produce and market approximately 600,000 tons annually of high-quality recycled linerboard and medium, providing us with a strategic footprint in a growing market. The conversion is expected to be completed by the end of 2022.

Our Raw Materials

The manufacturing of pulp and paper requires wood fiber, chemicals and energy. We discuss these three major raw materials used in our manufacturing operations below.

Wood Fiber

United States pulp and paper mills

The fiber used by our pulp and paper mills in the U.S. is softwood and hardwood, both readily available in the market from multiple third-party sources. The mills obtain fiber from a variety of sources, depending on their location. These sources include a combination of supply contracts, wood lot management arrangements, advance stumpage purchases and spot market purchases.

Canadian pulp and paper mills

The fiber used at our Windsor pulp and paper mill is hardwood originating from a variety of sources, including purchases on the open market in Canada and the U.S., contracts with Quebec wood producers' marketing boards, public land where we have wood supply allocations and from Domtar's private lands. The softwood and hardwood fiber for our Espanola pulp and paper mill and the softwood fiber for our Dryden pulp mill are obtained from third parties, directly or indirectly from public lands and through designated wood supply allocations. The fiber used at our Kamloops pulp mill is all softwood, originating mostly from third-party sawmill operations in the southern-interior part of British Columbia.

Cutting rights on public lands related to our pulp and paper mills in Canada represent about 1.7 million cubic meters of softwood and 0.8 million cubic meters of hardwood per year. Access to harvesting of fiber on public lands in Ontario and Quebec is subject to licenses and review by the respective governmental authorities.

Chemicals

We use various chemical compounds in our pulp and paper manufacturing operations that we purchase, primarily on a centralized basis, through contracts varying between one and ten years in length to ensure product availability. Most of the contracts have pricing that fluctuates based on prevailing market conditions. For pulp manufacturing, we use numerous chemicals including caustic soda, sodium chlorate, sulfuric acid, lime and peroxide. For paper manufacturing, we also use several chemical products including starch, precipitated calcium carbonate, optical brighteners, dyes and aluminum sulfate.

Energy

Our operations produce and consume substantial amounts of energy. Our primary energy sources include: biomass, natural gas and electricity. Approximately 73% of the total energy required to manufacture our products comes from renewable fuels such as bark and spent pulping liquor, generated as byproducts from our manufacturing processes. The remainder of the energy comes from smaller amounts of other fossil fuels and purchased steam procured under supply contracts. Under most of these contracts, suppliers are committed to provide quantities within predetermined ranges that provide us with our needs for a particular type of fuel at a specific facility. Most of these contracts have pricing that fluctuate based on prevailing market conditions. Biomass and fossil fuels are consumed primarily to produce steam that is used in the manufacturing process and, to a lesser extent, to provide direct heat used in the chemical recovery process.

We have cogenerating assets at all of our integrated pulp and paper mills, as well as hydro assets at three locations: Espanola, Nekoosa and Rothschild. These generating assets produce approximately 71% of the electricity requirements of our manufacturing operations, with the balance supplied from local utilities. Electricity is primarily used to drive motors, pumps and other equipment, as well as provide lighting.

Our Transportation

Transportation of raw materials, wood fiber, chemicals and pulp into our mills is mostly done by rail and trucks, although barges are used in certain circumstances. We rely on third parties for the transportation of our pulp and paper products between our mills, converting operations, distribution centers and customers. Our paper products are shipped mostly by truck, with logistics operations and procurement being managed centrally in collaboration with each location. Our pulp is either shipped by vessel, rail or truck depending on destination and customer preference. We work with major railroads, ocean carriers, and approximately 300 trucking and third-party transportation companies in the U.S. and Canada. Service agreements are typically negotiated on an annual basis. We pay diesel fuel surcharges, which vary depending on the mode of transportation used and the cost of diesel fuel.

Our Product Offering and Go-to-Market Strategy

Paper

Our uncoated freesheet papers are categorized into both communication papers and specialty and packaging papers. Communication papers are further categorized into business papers and commercial printing and publishing papers.

Our business papers include copy and electronic imaging papers, which are used with inkjet and laser printers, photocopiers and plain-paper fax machines, as well as computer papers, preprinted forms and digital papers. These products are primarily for office and home use. Business papers accounted for approximately 41% of our shipments of paper products in 2020.

Our commercial printing and publishing papers include uncoated freesheet papers, such as offset papers and opaques. These uncoated freesheet grades are used in sheet and roll fed offset presses across the spectrum of commercial printing end-uses, including digital printing. Our publishing papers include tradebook and lightweight uncoated papers used primarily in book publishing applications such as textbooks, dictionaries, catalogs, magazines, hard cover novels and financial documents. These products also include converting papers, such as envelopes, tablets, business forms and data processing/computer forms. Commercial printing and publishing papers accounted for approximately 41% of our shipments of paper products in 2020.

Our specialty and packaging papers include papers used for thermal printing, flexible packaging, food packaging, medical packaging, medical gowns and drapes, sandpaper backing, carbonless printing, labels and other papers used for coating and laminating applications. We also manufacture papers for industrial and specialty applications including carrier papers, treated papers, security papers and specialized printing and converting applications. These specialty and packaging papers accounted for approximately 18% of our shipments of paper products in 2020. These grades of papers require a certain amount of innovation and agility in the manufacturing system.

The chart below illustrates our main uncoated freesheet paper products and their applications:

	Communication Papers				Specialty and Packaging Papers
Category	Business Papers		Commercial Printing and Publishing Papers		
Grade	Copy	Premium imaging Technology papers	Offset Colors Index Tag Bristol	Opaques Premium opaques Lightweight Tradebook	Thermal papers Food packaging Bag stock Security papers Imaging papers Label papers Medical disposables
Application	Photocopies Office documents Presentations	Presentations Reports	Commercial printing Direct mail Pamphlets Brochures Cards Posters	Stationery Brochures Annual reports Books Catalogs Forms & Envelopes	Food & candy packaging Fast food takeout bag stock Check and security papers Surgical gowns

Our paper sales channels are aligned to efficiently bring a competitive and complete product offering to our varied customers. Our customer service personnel work closely with sales, marketing and production staff to provide service and support to merchants, converters, end-users, stationers, printers and retailers. We sell our products directly to end-users and others who influence paper purchasing decisions in order to enhance brand recognition and increase product demand. In addition, our sales representatives work closely with mill-based product development personnel and undertake joint marketing initiatives with customers in order to better understand their business needs and to support their future requirements.

We sell business papers primarily to paper stationers, merchants, office equipment manufacturers and retail outlets. We distribute uncoated commercial printing and publishing papers to end-users and commercial printers, mainly through paper merchants, as well as selling directly to some end users. We sell our specialty and packaging papers mainly to converters, who apply a further production process such as coating, rewinding, folding or waxing to our papers before selling them to a variety of specialized end-users.

The chart below illustrates our channels of distribution for our paper products:

Category	Communication Papers						Specialty and Packaging Papers
	Business Papers			Commercial Printing and Publishing Papers			
Domtar sells to:	Retailers ↓	Merchants ↓	Office Equipment Manufacturers / Stationers ↓	Merchants ↓	Converters ↓	End-Users	Converters ↓
Customer sells to:	Printers / End-users	Printers / Retailers / End-users	Retailers / Stationers / End-users	Printers / Converters / End-users	Merchants / Retailers		End-users

Pulp

Our pulp products are comprised of softwood, fluff and hardwood kraft as well as high quality airlaid and ultrathin laminated cores. Our pulp grades are sold to customers in over 50 countries worldwide and are used in a variety of end products, such as diapers and personal hygiene products, bathroom and facial tissue, specialty and packaging papers, customers who make printing and writing grades, building products and electrical insulating papers. Our laminated cores are used in the manufacturing of baby diapers, adult incontinence and feminine hygiene products.

We sell market pulp to customers in North America mainly through a North American sales force, while sales to most overseas customers are made directly or through commission agents. We maintain pulp supplies at strategically located warehouses, which allow us to respond to customer orders on short notice.

Our Customers

Our ten largest customers represented approximately 41% of our sales in 2020. In 2020, Staples represented approximately 12% of our sales. The majority of our customers purchase products through individual purchase orders. In 2020, approximately 75% of our sales were in the United States, 9% were in Canada, and 16% were in other countries.

OUR STRATEGIC INITIATIVES AND FINANCIAL PRIORITIES

As a leading fiber-based technology company, Domtar is focused on driving innovation, enhancing our operating platforms, and delivering high quality products. To further bolster our position and drive enhanced value for our stockholders, Domtar is focused on four key business objectives: (1) driving value through strategic investment; (2) building on our core competencies in wood fiber to diversify and expand Domtar's footprint in growth markets and industries; (3) maintaining a balanced and disciplined approach to capital allocation that allows for investments in growth opportunities and rewards stockholders with capital returns; and (4) operating with a focus on environmental responsibility and sustainability. We are confident that the continued focus on these objectives will bolster the competitive position of our business and drive value for our stakeholders, including stockholders, customers and employees.

Driving value. Fiber-based products remain the primary part of our growth plan, and we have strategies and operating priorities designed to maximize the value of the business. Our key priorities include: increasing productivity in our pulp business, pursuing new sources of paper consumption, pursuing asset repurposing opportunities and operating an optimal portfolio of strategic assets. We believe that execution on these priorities will enable Domtar to expand into complementary growth areas and protect its market position in Pulp and Paper.

Expanding into areas of growth and leveraging our fiber expertise. We are focused on optimizing and expanding our operations in markets with positive demand dynamics through investments for organic growth, the repurposing of assets and strategic acquisitions. Domtar has a history of proactively adapting to changing market conditions, and today, we are repositioning the Company towards areas of growth. We are well positioned to capitalize on new opportunities in the wood fiber market. The Company already has the financial resources, infrastructure, raw materials, technologies and expertise necessary to deliver new products. We believe that we have built a strong foundation for diversification and continue to make important, but disciplined, progress.

Maintaining a balanced and disciplined approach to capital allocation that allows for investments in growth opportunities and rewards stockholders with capital returns. We believe in a balanced and disciplined approach to capital allocation, and we are committed to deploying capital only to the areas that will achieve the best possible return for our stockholders. Domtar's free cash flow allows us to invest in growth opportunities and maintain a strong and flexible financial position for operating and strategic

initiatives, while still returning capital to our stockholders. To continue generating free cash flow, we are focused on allocating our capital expenditures effectively and minimizing working capital requirements by reducing discretionary spending, reviewing procurement costs and pursuing the balance of production and inventory control.

Operating responsibly on behalf of all of Domtar's stakeholders. We try to make a positive difference every day by pursuing sustainable growth, valuing relationships, and responsibly managing our resources. We aim to care for our customers, end-users and stakeholders in the communities where we operate, all seeking assurances that resources are managed in a sustainable manner. We strive to provide these assurances by certifying our distribution and manufacturing operations and measuring our performance against internationally recognized benchmarks. Domtar is committed to the responsible use of forest resources across our operations, and we are enrolled in programs and initiatives to encourage landowners to pursue certification to improve their market access and increase their revenue opportunities. We believe that each of these initiatives also creates value for our stockholders and is part of our larger business strategy and commitment to environmental sustainability.

OUR COMPETITION

The markets in which our businesses operate are highly competitive with well-established domestic and foreign manufacturers.

In the paper business, our paper production does not rely on proprietary processes or formulas, except in highly specialized papers or customized products. In uncoated freesheet, we compete primarily on the basis of product quality, breadth of offering, service solutions and competitively priced paper products, which include an extensive offering of high quality Forest Stewardship Council ("FSC")-certified paper products. While we have a leading position in the North American uncoated freesheet market, we also compete with other paper grades, including coated freesheet, and with electronic transmission and document storage alternatives. As the use of these alternative products continues to grow, we continue to see a decrease in the overall demand for paper products. All of our pulp and paper manufacturing facilities are located in the U.S. or in Canada where we sell approximately 84% of our products. The five largest manufacturers of uncoated freesheet papers in North America (including Domtar) represent approximately 76% of total production capacity. On a global basis, there are hundreds of manufacturers that produce and sell uncoated freesheet paper. The level of competitive pressures from foreign producers in the North American market is highly dependent upon exchange rates, particularly the rate between the U.S. dollar and the Euro as well as the U.S. dollar and the Brazilian real.

The pulp we sell is fluff, softwood or hardwood pulp. The pulp market is highly fragmented with many manufacturers competing worldwide. Competition is primarily on the basis of access to low-cost wood fiber, product quality and competitively priced pulp products. The fluff pulp we sell is used in absorbent products, incontinence products, diapers and feminine hygiene products. The softwood and hardwood pulp we sell is primarily slow growth northern bleached softwood and hardwood kraft, and we produce specialty engineered pulp grades with a predetermined mix of wood species. Our softwood and hardwood pulps are sold to customers that make a variety of products for specialty paper, packaging, tissue and industrial applications, and customers who make printing and writing grades. Airlaid and ultrathin laminated cores are highly customized and specialized for customer needs and have a relatively long and technical development, qualification and sales process. We also seek product differentiation through the certification of our pulp mills to the FSC chain-of-custody standard and the procurement of FSC-certified virgin fiber. All of our pulp production capacity is located in the U.S. or in Canada, and we sell approximately 54% of our pulp to other countries.

OUR HUMAN CAPITAL

We have approximately 6,600 employees, 61% are employed in the United States and 39% in Canada. 57% of our employees are covered by collective bargaining agreements, generally on a facility-by-facility basis.

We are committed to fostering a workplace that attracts and retains talent. Through ongoing employee development, comprehensive compensation and benefits, and a focus on health, safety, employee well-being and community engagement, we aim to directly influence positive work behavior and on-the-job performance.

Diversity and Inclusion

Although we have a strict non-discrimination and anti-harassment policy, we view diversity and inclusion as more than just policies and practices. It is part of who we are, how we operate, and essential to our long-term sustainability. We strive to create an inclusive workplace where people can bring their authentic selves to work and feel valued and included.

Our commitment to diversity and inclusion starts at the top with a highly skilled and diverse board. We are committed to increasing representation of women and underrepresented minorities at Domtar overall, but particularly in leadership roles. The Domtar Diversity and Inclusion Council, provides guidance to leadership to help make Domtar more inclusive and diverse.

To ensure leadership maintains a commitment to diversity and inclusion, each leader is responsible for focusing on how they can develop and support diversity within the workplace and within their scope of responsibilities. The Human Resources Committee of the Board also has ongoing oversight of diversity and inclusion programs.

Compensation and Pay Equity

Our compensation program is designed to attract and reward talented individuals who possess the skills necessary to support our business objectives, assist in the achievement of our strategic goals and create long-term value for our stockholders. We believe people should be paid for what they do and how they do it, regardless of their gender, race, or other personal characteristics. To deliver on that commitment, we benchmark and set pay ranges based on market data and consider factors such as an employee's role, experience and their performance. We also regularly review our compensation practices, both in terms of our overall workforce and individual employees, to ensure our pay is fair and equitable.

Learning and Development

Hiring, developing and retaining employees is important to our operations and we are focused on creating experiences and programs that foster growth, performance and retention. We continually invest in our employees' career growth and provide a wide range of development opportunities, including face-to-face, virtual, social and on-site learning, mentoring, coaching, and external development.

Health and Safety

The physical health, life balance and mental health of our employees is vital to Domtar's success. That is why we work relentlessly to physically eliminate hazards and minimize risk of injury, promote a safety culture, and invest in well-being programs to help our employees establish and maintain healthy lifestyles.

Throughout the COVID-19 pandemic, we have remained focused on protecting the health, safety, and well-being of our employees while meeting the needs of our customers. Shortly after the outset of COVID-19, we adopted enhanced safety measures and practices across our facilities to protect employee health and safety and ensured a reliable supply of essential products to our customers. We monitor the impact of the pandemic on our employees and within our operations, and proactively modify or adopt new practices to promote their health and safety.

Community Involvement

We make donations to charitable organizations in the communities where we live and work and believe that this commitment helps in our efforts to attract and retain employees. We also offer employees the opportunity to volunteer in their communities through our Domtar EarthChoice Ambassadors program. We focus our philanthropic efforts on three areas that align with our business: literacy, sustainability, and health and wellness.

OUR APPROACH TO SUSTAINABILITY

Domtar aims to deliver value to our customers, employees, shareholders and communities by viewing our business decisions within the larger context of sustainability. We take a long-term view on managing natural resources for the future. We strive to minimize waste and encourage recycling. We aim to have the highest standards for ethical conduct, for caring about the health and safety of each other, and for maintaining the environmental quality in the communities where we live and work. We value the partnerships we have formed with non-governmental organizations and believe they make us a better company. We focus on agility to respond to new opportunities, and we are committed to turning innovation into value creation. By embracing sustainability as our operating philosophy, we seek to internalize the fact that the choices we have and the impact of the decisions we make on our stakeholders are all interconnected. We believe that our business and the people and communities who depend on us are better served as we weave this focus on sustainability into the things we do.

Domtar executes this commitment to sustainability at every level and every location across the Company. With the support of the Board of Directors, our Management Committee empowers senior managers from manufacturing, technology, finance, sales and marketing and corporate staff functions to regularly come together and establish key sustainability performance metrics, and to routinely assess and report on progress. Our sustainability goals, challenges and progress are reported annually on the Company's website and other published reports.

OUR ENVIRONMENTAL COMPLIANCE

Our business is subject to a wide range of general and industry-specific laws and regulations in the U.S. and other countries where we have operations, relating to the protection of the environment, including those governing wood harvesting, air emissions, climate change, waste water discharges, storage, management and disposal of hazardous substances and wastes, contaminated sites, landfill operation and closure obligations and health and safety matters. Compliance with these laws and regulations is a significant factor in the operation of our business. We may encounter situations in which our operations fail to maintain full compliance with applicable environmental requirements, possibly leading to civil or criminal fines, penalties or enforcement actions, including those that could result in governmental or judicial orders that stop or interrupt our operations or require us to take corrective measures at substantial costs, such as the installation of additional pollution control equipment or other remedial actions.

Compliance with environmental laws and regulations involves capital expenditures as well as additional operating costs. Additional information regarding environmental matters is included in Item 8, Financial Statements and Supplementary Data, under Note 22 "Commitments and Contingencies" and in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the section of Critical accounting estimates and policies, under the caption "Environmental Matters and Asset Retirement Obligations."

OUR INTELLECTUAL PROPERTY

Many of our brand name products are protected by registered trademarks. Our key trademarks include Cougar®, Lynx® Opaque Ultra, Husky® Opaque Offset, First Choice®, EarthChoice®, Ariva®, NovaThin® and NovaZorb®. These brand names and trademarks are important to our business. Our numerous trademarks have been registered in the U.S. and/or in other countries where our products are sold. The current registrations of these trademarks are effective for various periods of time. These trademarks may be renewed periodically, provided that we, as the registered owner, and/or licensee comply with all applicable renewal requirements, including the continued use of the trademarks in connection with similar goods.

We own U.S. and foreign patents and have several pending patent applications. Our management regards these patents and patent applications as important but does not consider any single patent or group of patents to be materially important to our business as a whole.

OUR EXECUTIVE OFFICERS (“MANAGEMENT COMMITTEE”)

Name	Age	Position and Business Experience
<i>John D. Williams</i>	66	<p>President and Chief Executive Officer of the Company since January 2009. He is also a member of the Board of Directors.</p> <p>Previously, Mr. Williams served as President of SCA Packaging Europe between 2005 and 2008. Prior to assuming his leadership position with SCA Packaging Europe, Mr. Williams held increasingly senior management and operational roles in the packaging business and related industries.</p> <p>Mr. Williams is Lead Independent Director of the Board of Directors of Owens Corning and the Non-Executive Chairman of Form Technologies, Inc., a privately held leading global group of precision component manufacturers based in Charlotte, North Carolina.</p>
<i>Daniel Buron</i>	57	<p>Executive Vice President and Chief Financial Officer of the Company since March 2007. Mr. Buron was previously Senior Vice-President and Chief Financial Officer of Domtar Inc. since May 2004. He joined Domtar Inc. in 1999. Prior to May 2004, he was Vice President, Finance, Pulp and Paper sales division and, prior to September 2002, he was Vice President and Controller. He has over 30 years of experience in finance. Mr. Buron is a Director of the McGill University Health Centre Foundation and also serves on the Board of Directors of Nouveau Monde Graphite Inc.</p>
<i>Maria Brennan</i>	54	<p>Senior Vice President, Procurement. Ms. Brennan has been with Domtar since 2014. Previously, she worked for ConAgra, PepsiCo and General Mills where she held various roles, including plant management, customer service, logistics and planning, and procurement. She is on the Board of Directors for the Humane Society of Charlotte and is also on the Board of Directors for the Supply Chain Council at West Virginia University.</p>
<i>James Edwards</i>	56	<p>Senior Vice President, Pulp and Paper Operations. Mr. Edwards has been with Domtar since 1996 and has held several mill and corporate positions including Vice President of Pulp and Paper manufacturing services team, general manager of our pulp and paper mill in Marlboro (Bennettsville), South Carolina, operations manager, linerboard and fluff pulp manager, and recycled linerboard superintendent. He is on the National Council for Air and Stream Improvement Board of Governors and on Western Michigan University’s Board of Trustees for their Paper Technology Foundation.</p>

<i>Steven Henry</i>	48	Senior Vice President, Packaging. Mr. Henry has been with Domtar since 2011. Previously at Domtar he held the positions of Vice President, strategy and business analysis, and general manager at our Hawesville, Kentucky, pulp and paper mill. Throughout his 25-year career in the forest products and paper industry he has held a variety of mill and corporate positions at Georgia-Pacific, Weyerhaeuser and International Paper. He currently serves on the Board of Directors of Prisma Renewable Composites, LLC.
<i>Zygmunt Jablonski</i>	67	Senior Vice President and Chief Legal and Administrative Officer of the Company. Mr. Jablonski joined Domtar in 2008, after serving in various in-house counsel positions for major manufacturing and distribution companies in the paper industry for 13 years. From 1985 to 1994, he practiced law in Washington, DC. Mr. Jablonski will be departing April 2, 2021.
<i>Nancy Klembus</i>	60	Senior Vice President, General Counsel and Corporate Secretary, effective April 2, 2021. Ms. Klembus has been with Domtar since 2016. She has over 20 years of experience practicing law in the paper and personal care industry and previously worked in private practice and in-house at Kimberly-Clark. Prior to attending law school, she worked at General Motors in engineering, reliability, and manufacturing. She is licensed to practice law in Michigan and Georgia, as well before the United States Patent and Trademark Office. Ms. Klembus is on the Board of Directors of the Soccer Foundation of Charlotte.
<i>Patrick Loulou</i>	52	Senior Vice President, Business Development since he joined the Company in March 2007. Previously, he held a number of positions in the telecommunications sector as well as in management consulting. His over 20 year career has spanned a number of areas and functions such as corporate strategy, M&A, operations, business transformation and business development. Mr. Loulou is also a trustee of the Montreal Fine Arts Museum Foundation and sits on the Board of the Montreal Symphony Orchestra.
<i>Stephen Makris</i>	48	Senior Vice President, Business Transformation. Mr. Makris has been with Domtar since 2013. Previously at Domtar he held the positions of Vice President, Pulp and Vice President, strategy and global innovation for our former Personal Care division. Prior to joining Domtar, Mr. Makris worked for a project and technology development firm serving the forest products and energy sectors, where he was responsible for business development. He was also an associate partner at McKinsey & Company and a leader in the firm's forest products practice based in Stockholm, Sweden.
<i>Robert Melton</i>	49	Senior Vice President, Pulp and Paper Commercial. Mr. Melton has been with Domtar since 1993. He has held multiple roles in the communication and specialty papers at Domtar. He serves as Chair of the Printing & Writing Committee of the American Forest and Paper Association, is on the Board of Directors of the Envelope Manufacturers Association Foundation and is also on the Board of Directors of the Paper & Packaging Board.
<i>Richard McAtee</i>	51	Senior Vice President, Human Resources, effective April 2, 2021. Mr. McAtee has been with Domtar since 2015 and has over 25 years of experience in labor relations, employment law and human resources. Prior to joining Domtar, Mr. McAtee was a managing partner with Jackson Lewis P. C., one of the largest employment and labor law firms in the United States. During this time, he opened and managed their Raleigh, North Carolina office and was elected to their Board of Directors.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements relating to trends in, or representing management's beliefs about, Domtar Corporation's future growth, results of operations, performance, liquidity and business prospects and opportunities. These forward-looking statements are generally denoted by the use of words such as "anticipate," "believe," "expect," "intend," "aim," "target," "plan," "continue," "estimate," "project," "may," "will," "should" and similar expressions. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to known and unknown risks and uncertainties and other factors that could cause actual results to differ materially from historical results or those anticipated. Accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will occur, or if any occur, what effect they will have on our results of operations or financial condition. These factors include, but are not limited to:

- continued decline in usage of fine paper products in our core North American market;
- our ability to implement our business diversification initiatives, including repurposing of assets and strategic acquisitions or divestitures, including facility closures;
- failure to achieve our cost containment goals, conversion costs in excess of our expectations and demand for linerboard;
- product selling prices;
- raw material prices, including wood fiber, chemical and energy;
- conditions in the global capital and credit markets, and the general economy, particularly in the U.S., and Canada;
- performance of our manufacturing operations, including unexpected maintenance requirements;
- the level of competition from domestic and foreign producers;
- cyberattacks or other security breaches;
- the effect of, or change in, forestry, land use, environmental and other governmental regulations and accounting regulations;
- the effect of weather and the risk of loss from fires, floods, windstorms, hurricanes and other natural disasters;
- transportation costs;
- the loss of current customers or the inability to obtain new customers;
- legal proceedings;
- changes in asset valuations, including impairment of long-lived assets, inventory, accounts receivable or other assets or other reasons;
- changes in currency exchange rates, particularly the relative value of the U.S. dollar to the Canadian dollar;
- the effect of timing of retirements and changes in the market price of Domtar Corporation's common stock on charges for stock-based compensation;
- performance of pension fund investments and related derivatives, if any;
- a material disruption in our supply chain, manufacturing, distribution operations or customer demand such as public health crises that impact trade or the general economy, including COVID-19 and other viruses, diseases or illnesses; and
- the other factors described under "Risk Factors," Item 1A.

You are cautioned not to unduly rely on such forward-looking statements, which speak only as of the date made, when evaluating the information presented in this Annual Report on Form 10-K. Unless specifically required by law, Domtar Corporation disclaims any obligation to update or revise these forward-looking statements to reflect new events or circumstances.

ITEM 1A. RISK FACTORS

You should carefully consider the risks described below in addition to the other information presented in this Annual Report on Form 10-K.

Risks Related to our Business

Failure to successfully implement the Company's business diversification initiatives could have a material adverse effect on its business, results of operations and financial position.

The Company is pursuing strategic initiatives that management considers important to our long-term success. The intent of these initiatives is to help grow and diversify the business and counteract the secular decline in our North American paper business. These initiatives may involve organic growth, conversion of assets, select joint ventures and strategic acquisitions. The success of these initiatives will depend on, among other things, our ability to identify potential strategic initiatives, understand the key trends and principal drivers affecting those businesses and to execute the initiatives in a cost-effective manner. There are significant risks involved with the execution of such initiatives, including significant business, economic and competitive uncertainties, many of which are outside the Company's control.

For example, we are currently converting one of our mills to a containerboard production facility and in the past, we have converted paper mills to fluff pulp production facilities. If circumstances warrant, in the future we may again convert mills to produce pulp or other products. Conversions can be capital intensive and can involve the shutdown of a facility for an extended period of time, followed by an extended ramp-up and customer certification process. In addition, the success of a conversion depends upon demand over time for the new product relative to the previously produced paper products, as well as costs and other factors, and there can be no assurance that a conversion will be as successful as expected.

Strategic acquisitions may expose the Company to additional risks. The Company may have to compete for acquisition targets and any acquisition it makes may fail to accomplish our strategic objectives or may not perform as expected. In addition, the costs of integrating an acquired business may exceed our estimates and may require significant time and attention from senior management. Accordingly, the Company cannot predict whether it will succeed in implementing these strategic initiatives. If it fails to successfully diversify our business, it may have a material adverse effect on the Company's competitive position, financial condition and operating results.

The Company's paper products are vulnerable to long-term declines in demand due to competing technologies or materials.

The Company's paper business competes with electronic transmission and document storage alternatives, as well as with paper grades it does not produce, such as uncoated groundwood. As a result of such competition, the Company is experiencing ongoing decreasing demand for most of its existing paper products. As the use of these alternatives grows, demand for paper products is likely to decline further. Declines in demand for our paper products may adversely affect the Company's business, results of operations and financial position.

The pulp and paper industry is highly cyclical. Fluctuations in the prices of and the demand for the Company's pulp and paper products could result in lower sales and profit.

The pulp and paper industry is highly cyclical. Historically, economic and market shifts, fluctuations in capacity and changes in foreign currency exchange rates have created cyclical changes in prices, sales volume and margins for the Company's pulp and paper products. The length and magnitude of industry cycles have varied over time and by product, but generally reflect changes in macroeconomic conditions and levels of industry capacity. Most of the Company's paper products are commodities that are widely available from other producers. Because commodity products have few distinguishing qualities from producer to producer, competition for these products is based primarily on price, which is determined by supply relative to demand.

The overall levels of demand for the pulp and paper products that the Company manufactures and distributes, and consequently its sales and profitability, reflect fluctuations in levels of end-user demand, which depend in part on general macroeconomic conditions in North America and worldwide, the continuation of the current level of service and cost of postal services, as well as competition from electronic substitution. See "Conditions in the global political and economic environment, including the global capital and credit markets, can adversely affect the Company's business, results of operations and financial position" and "The Company's paper products are vulnerable to long-term declines in demand due to competing technologies or materials".

Industry supply of pulp and paper products is also subject to fluctuation, as changing industry conditions can influence producers to idle or permanently close individual machines or entire mills. Such closures can result in significant cash and/or non-cash charges. In addition, to avoid substantial cash costs in connection with idling or closing a mill, some producers will choose to continue to operate at a loss, sometimes even a cash loss, which can prolong weak pricing environments due to oversupply. Oversupply also can result from producers introducing new capacity in response to favorable pricing trends or low-cost imports in response to exchange rates and other factors.

Industry supply of pulp and paper products is also influenced by overseas production capacity, which has grown in recent years and is expected to continue to grow.

As a result, prices for all of the Company's pulp and paper products are driven by many factors outside of its control, and the Company has little influence over the timing and extent of price changes, which are often volatile. Because market conditions beyond the Company's control determine the prices for its commodity products, the price for any one or more of these products may fall below its cash production costs, requiring the Company to either incur cash losses on product sales or cease production at one or more of its pulp and paper manufacturing facilities. The Company continuously evaluates potential adjustments to its production capacity, which may include additional closures of machines or entire mills, and the Company could recognize significant cash and/or non-cash charges relating to any such closures in future periods. Refer to Item 8, Financial Statements and Supplementary Data, under Note 16 "Closure and Restructuring Costs and Impairment of Long-Lived Assets" for more details. Therefore, the Company's profitability with respect to these products depends on managing its cost structure, particularly wood fiber, chemical, transportation and energy costs, which represent the largest components of its operating costs and can fluctuate based upon factors beyond its control. If the prices or demand for its pulp and paper products decline, or if its wood fiber, chemical, transportation or energy costs increase, or both, this could adversely affect the Company's results of operations and financial position.

The Company relies heavily on a small number of significant customers, including one customer that represented approximately 12% of the Company's sales in 2020. A significant change in customer relationships or in customer demand for our products could materially adversely affect the Company's business, financial condition or results of operations.

The Company heavily relies on a small number of significant customers. The Company's largest customer, Staples, represented approximately 12% of the Company's sales in 2020. A significant reduction in sales to any of the Company's key customers could materially adversely affect the Company's business, financial condition or results of operations, which could result from such customers further diversifying their product sourcing, experiencing financial difficulty or consolidating with each other.

The Company may have difficulty obtaining wood fiber at favorable prices, or at all.

Wood fiber is the principal raw material used by the Company's Pulp and Paper business, comprising approximately 24% of the cost of sales in 2020. Wood fiber is a commodity, and prices historically have been impacted by a variety of factors. The primary source for wood fiber is timber. Environmental litigation and regulatory developments, alternative use for energy production and reduction in harvesting related to the housing market, have caused, and may cause in the future, significant reductions in the amount of timber available for commercial harvest in the U.S. and Canada. In addition, future domestic or foreign legislation and litigation concerning the use of timberlands, the protection of endangered species, the promotion of forest health and the response to and prevention of catastrophic wildfires could also affect timber supplies. Availability of harvested timber may be further limited by adverse weather, fire, insect infestation, disease, ice storms, windstorms, flooding and other natural and man-made causes, thereby reducing supply and increasing prices. Wood fiber pricing is subject to regional market influences, and the Company's cost of wood fiber may increase in particular regions due to market shifts in those regions. Any sustained increase in wood fiber prices would increase the Company's operating costs, and the Company may be unable to increase prices for its products in response to increased wood fiber costs due to additional factors affecting the demand or supply of these products.

The Company currently meets its wood fiber requirements by purchasing wood fiber from third parties and by harvesting timber pursuant to its forest licenses and forest management agreements. If the Company's cutting rights, pursuant to its forest licenses or forest management agreements are reduced, or any third-party supplier of wood fiber stops selling or is unable to sell wood fiber to the Company, its financial condition or results of operations could be materially and adversely affected.

An increase in the cost of the Company's purchased energy or other raw materials would lead to higher manufacturing costs, thereby reducing its margins.

The Company's operations consume substantial amounts of energy such as biomass, natural gas and electricity. Energy prices, particularly for electricity, natural gas and fuel oil, have been volatile in recent years. As a result, fluctuations in energy prices will impact the Company's manufacturing costs and contribute to earnings volatility. While the Company purchases substantial portions of its energy under supply contracts, most of these contracts are based on market pricing.

Other raw materials the Company uses include various chemical compounds, such as precipitated calcium carbonate, sodium chlorate, sulfuric acid, dyes, peroxide, methanol and aluminum sulfate, super absorbent polymers and nonwovens. The costs of these other raw materials have been volatile historically, and they are influenced by capacity utilization, energy prices and other factors beyond the Company's control.

Due to the commodity nature of the Company's products, the relationship between supply and demand for these products, rather than changes in the cost of raw materials or purchased energy, will determine the Company's ability to increase prices. Consequently, the Company may be unable to pass on increases in its operating costs to its customers. Any sustained increase in raw material or energy

prices without any corresponding increase in product pricing would reduce the Company's operating margins and may have a material adverse effect on its business and results of operations.

The Company depends on third parties for transportation services.

The Company relies on third parties for transportation of the products it manufactures and/or distributes, as well as delivery of its raw materials. In particular, a significant portion of the goods it manufactures and raw materials it uses are transported by railroad, trucks or ocean barges. If any of its third-party transportation providers were to fail to deliver the goods that the Company manufactures or distributes in a timely manner, the Company may be unable to sell those products at full value, or at all. Similarly, if any of these providers were to fail to deliver raw materials to the Company in a timely manner, it may be unable to manufacture its products in response to customer demand. In addition, if any of these third parties were to cease operations or cease doing business with the Company, it may be unable to replace them at reasonable cost. Any failure of a third-party transportation provider to deliver raw materials or finished products in a timely manner could harm the Company's reputation, negatively impact its customer relationships and may have a material adverse effect on its financial condition and results of operations.

The Company could experience disruptions in operations and/or increased labor costs due to labor disputes.

Approximately 57% of the Company's employees are represented by unions through collective bargaining agreements generally negotiated on a facility-by-facility basis. In the future, the Company may not be able to negotiate acceptable new collective bargaining agreements, which could result in strikes or work stoppages or other labor disputes by affected workers. Renewal of collective bargaining agreements could also result in higher wages or benefits paid to union members. In addition, labor organizing activities could occur at any of the Company's facilities. Therefore, the Company could experience a disruption of its operations or higher ongoing labor costs, which could have a material adverse effect on its business and results of operations.

A material disruption in the Company supply chain, manufacturing or distribution operations could prevent it from meeting customer demand, reduce its sales and/or negatively impact its results of operations.

The Company's ability to manufacture, distribute and sell products is critical to its operations. These activities are subject to inherent risks such as:

- unscheduled maintenance outages;
- prolonged power failures;
- equipment failure;
- chemical spill or release;
- malfunction of a boiler;
- the effect of a drought or reduced rainfall on its water supply;
- labor disputes;
- government regulations;
- disruptions in the transportation infrastructure, including roads, bridges, railroad tracks and tunnels;
- adverse weather, fires, floods, earthquakes, hurricanes or other catastrophes;
- cyberattack or other security breaches;
- failure of our IT systems, including any failure of our current systems and/or as a result of transitioning to additional or replacement IT system;
- public health crises that impact trade or the general economy, including COVID-19 and other viruses, diseases or illnesses;
- terrorism or threats of terrorism; or
- other operational problems, including those resulting from the risks described in this section.

Events such as those listed above could disrupt the Company's supply chain and impair its ability to manufacture or sell its products and have resulted in operating losses in the past. Any interruption or facility damage could prevent the Company from meeting customer demand for its products as well as require additional resources and/or require unplanned expenditures. If one or more of these machines or facilities were to incur significant downtime, it may have a material adverse effect on the Company's results of operations and financial position.

The Company could encounter difficulties restructuring operations or closing or disposing of facilities or business.

The Company is continuously seeking the most cost-effective means and structure to serve our customers and to respond to changes in our markets. Accordingly, from time to time, the Company has, and is likely to again close facilities, sell non-core assets and otherwise restructure operations in an effort to improve cost competitiveness and profitability. As a result, restructuring and divestiture costs have been, and are expected to be, a recurring component of our operating costs, and may vary significantly from year to year depending on the scope of such activities. Divestitures and restructuring may also result in significant financial charges for the impairment of assets, including intangible assets. Furthermore, such activities may divert the attention of management, disrupt our ordinary operations, or result in a reduction in the volume of products produced and sold. There is no guarantee that any such activities will achieve its goal, and if the Company cannot successfully manage the associated risks, its financial condition and results of operations could be adversely affected.

Legal and Regulatory Risks

The Company could incur substantial costs as a result of compliance with, violations of or liabilities under applicable environmental laws and regulations. It could also incur costs as a result of asbestos-related personal injury litigation.

The Company is subject to a wide range of general and industry-specific laws and regulations in the U.S. and other countries where we have operations, relating to the protection of the environment and natural resources, including those governing air emissions, greenhouse gases and climate change, wastewater discharges, harvesting, silvicultural activities, storage, management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, landfill operation and closure obligations, forestry operations and endangered species habitat, and health and safety matters. In particular, the pulp and paper industry in the U.S. is subject to the United States Environmental Protection Agency's ("EPA") Cluster Rules.

The Company has incurred, and expects that it will continue to incur, significant capital, operating and other expenditures complying with applicable environmental laws and regulations as a result of remedial obligations. The Company incurred \$62 million of operating expenses and \$4 million of capital expenditures in connection with environmental compliance and remediation in 2020. As of December 31, 2020, the Company had a provision of \$47 million for environmental expenditures, including certain asset retirement obligations (such as for landfill capping).

The Company could also incur substantial costs, such as civil or criminal fines, sanctions and enforcement actions (including orders limiting its operations or requiring corrective measures, installation of pollution control equipment or other remedial actions), cleanup and closure costs, and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws and regulations. The Company's ongoing efforts to identify potential environmental concerns that may be associated with its past and present properties may lead to future environmental investigations. Those efforts may result in the determination of additional environmental costs and liabilities which cannot be reasonably estimated at this time.

As the owner and operator of real estate, the Company may be liable under environmental laws for cleanup, closure and other damages resulting from the presence and release of hazardous substances, including asbestos, on or from its properties or operations, including properties that it no longer owns. The amount and timing of environmental expenditures is difficult to predict, and, in some cases, the Company's liability may be imposed without regard to contribution or to whether it knew of, or caused, the release of hazardous substances and may exceed forecasted amounts or the value of the property itself. The discovery of additional contamination or the imposition of additional cleanup obligations at the Company's or third-party sites may result in significant additional costs. Any material liability the Company incurs could adversely impact its financial condition or preclude it from making capital expenditures that would otherwise benefit its business.

In addition, the Company may be subject to asbestos-related personal injury litigation arising out of exposure to asbestos on or from its properties or operations and may incur substantial costs as a result of any defense, settlement, or adverse judgment in such litigation. The Company may not have access to insurance proceeds to cover costs associated with asbestos-related personal injury litigation.

Enactment of new environmental laws or regulations or changes in existing laws or regulations (such as changes in climate change regulation), or interpretation thereof, might require significant expenditures. For additional information, refer to Item 8, Financial Statements and Supplementary Data, under Note 22 "Commitments and Contingencies". The Company may be unable to generate funds or other sources of liquidity and capital to fund environmental liabilities or expenditures.

Failure to comply with applicable laws and regulations could have a material adverse effect on our business, financial results or condition.

In addition to environmental laws, the Company's business and operations are subject to a broad range of other laws and regulations in the U.S. and Canada as well as other jurisdictions in which the Company operates, including antitrust and competition laws, occupational health and safety laws, and employment laws. Many of these laws and regulations are complex and subject to evolving and differing interpretation. If the Company is determined to have violated any such laws or regulations, whether inadvertently or

willfully, it may be subject to civil and criminal penalties, including substantial fines, loss of authorizations to participate in or exclusion from government programs, claims for damages by third parties or fines or monetary penalties which may have a material adverse effect on the Company's financial position, results of operations or cash flows. For additional information, refer to Item 8, Financial Statements and Supplementary Data, under Note 22 "Commitments and Contingencies."

Financial Risks

The Company's operations require substantial capital, and it may not have adequate capital resources to provide for all of its capital requirements.

The Company's businesses are capital intensive and require ongoing capital expenditures in order to maintain its equipment, increase its operating efficiency and comply with environmental laws. In 2020, the Company's total capital expenditures were \$175 million.

If the Company's available cash resources and cash generated from operations are not sufficient to fund its operating needs and capital expenditures, the Company would have to obtain additional funds from borrowings or other available sources or reduce or delay its capital expenditures. The Company may not be able to obtain additional funds on favorable terms, or at all. In addition, the Company's debt service obligations will reduce its available cash flows. If the Company cannot maintain or upgrade its equipment as it requires or allocate funds to ensure environmental compliance, it could be required to curtail or cease some of its manufacturing operations, or it may become unable to manufacture products that compete effectively in one or more of its product lines.

The Company and its subsidiaries may incur substantially more debt. This could increase risks associated with its leverage.

The Company and its subsidiaries may incur substantial additional indebtedness in the future. Although the revolving credit facility contains restrictions on the incurrence of additional indebtedness, including secured indebtedness, these restrictions are subject to a number of qualifications and exceptions, and additional indebtedness incurred in compliance with these restrictions could be substantial. Refer to Item 8, Financial Statements and Supplementary Data, under Note 19 "Long-Term Debt" for more details.

The Company's ability to generate the significant amount of cash needed to pay interest and principal on the Company's unsecured long-term notes and service its other debt and financial obligations and its ability to refinance all or a portion of its indebtedness or obtain additional financing depends on many factors beyond the Company's control.

In 2020, the Company paid approximately \$59 million in interest and principal payments. The Company's ability to make payments on and refinance its debt, including the Company's unsecured long-term notes and amounts borrowed under its revolving credit facility and term loan, if any, and other financial obligations and to fund its operations will depend on its ability to generate substantial operating cash flow. The Company's cash flow generation will depend on its future performance, which will be subject to prevailing economic conditions and to financial, business and other factors, many of which are beyond its control.

The Company's business may not generate sufficient cash flow from operations and future borrowings may not be available to the Company under its revolving credit facility or otherwise in amounts sufficient to enable the Company to service its indebtedness, including the Company's unsecured long-term notes, and borrowings, if any, under its revolving credit facility and securitization or to fund its other liquidity needs. If the Company cannot service its debt, the Company will have to take actions such as reducing or delaying capital investments, selling assets, restructuring or refinancing its debt or seek additional equity capital. Any of these remedies may not be executed on commercially reasonable terms, or at all, and may impede the implementation of its business strategy. Furthermore, the revolving credit facility may restrict the Company from adopting any of these alternatives. Because of these and other factors that may be beyond its control, the Company may be unable to service its indebtedness.

The Company has liabilities with respect to its pension plans and the actual cost of its pension plan obligations could exceed current provisions. As of December 31, 2020, the Company's defined benefit plans had a surplus of \$152 million on certain plans and a deficit of \$124 million on others.

Since pension fund obligations are primarily long-term in nature, losses in pension fund investments, if any, would result in increased contributions by the Company, to be paid over 5 year or 10 year periods, depending upon the applicable legislation for funding pension deficits. Losses, if any, would also impact the Company's results over a longer period of time and immediately increase liabilities and reduce equity.

The Company's future funding obligations for its defined benefit pension plans depend upon changes to the level of benefits provided by the plans, the future performance of assets set aside in trusts for these plans, the level of interest rates used to determine minimum funding levels, actuarial data and experience, and any changes in government laws and regulations. As of December 31, 2020, the Company's defined benefit pension plans held assets with a fair value of \$1,594 million.

Market Risks

The Company faces intense competition in its markets, and the failure to compete effectively could have a material adverse effect on its business and results of operations.

The Company competes with U.S., Canadian, European and Asian producers and, for many of its product lines with global producers, some of which may have greater financial resources and lower production costs than the Company. The principal basis for competition is selling price. The Company's ability to maintain satisfactory margins depends largely on its ability to control its costs. Our industries also are particularly sensitive to other factors including innovation, design, quality and service, with varying emphasis on these factors depending on the product line. The Company cannot provide assurance that it will compete effectively and maintain current levels of sales and profitability. If the Company cannot compete effectively, such failure could have a material adverse effect on its business and results of operations.

Conditions in the global political and economic environment, including the global capital and credit markets, can adversely affect the Company's business, results of operations and financial position.

A significant or prolonged downturn in the general economic environment may affect the Company's sales and profitability. The Company has exposure to counterparties with which it routinely executes transactions. Such counterparties include commercial banks, insurance companies and other financial institutions, some of which may be exposed to bankruptcy or liquidity risks. A bankruptcy or illiquidity event by one of its significant counterparties may materially and adversely affect the Company's access to capital, future business and results of operations. In addition, the Company's customers and suppliers may be adversely affected by severe economic conditions. This could result in reduced demand for its products or its inability to obtain necessary supplies at reasonable costs, or at all.

The Company may be negatively impacted by political issues or crisis in individual countries or regions, including sovereign risk related to a default by or deterioration in the credit worthiness of local governments. Any of these effects, and others the Company cannot anticipate, may have a negative effect and may adversely affect the Company's business.

The Company is affected by changes in currency exchange rates.

The Company has manufacturing operations in the U.S. and Canada. As a result, it is exposed to movements in foreign currency exchange rates in Canada. Moreover, certain assets and liabilities are denominated in currencies other than the U.S. dollar and are exposed to foreign currency movements. As a result, the Company's earnings are affected by increases or decreases in the value of the Canadian dollar relative to the U.S. dollar. Additionally, there has been, and may continue to be, volatility in currency exchange rates. The Company's risk management policy allows hedging a significant portion of its exposure to fluctuations in foreign currency exchange rates for periods up to three years. The Company may use foreign exchange derivative instruments to mitigate its exposure to fluctuations in foreign currency exchange rates. There can be no assurance that the Company will be protected against substantial foreign currency fluctuations. Currency exchange rates could adversely affect the Company's results of operations and financial position.

General Risks

A global pandemic (or any disease outbreak, including epidemics, pandemics, or similar widespread public health concerns such as the recent COVID-19 pandemic) could have a material adverse effect on the Company's business operations, results of operations, cash flows and financial position.

The Company's business may be negatively impacted by the fear of exposure to or actual effects of a disease outbreak, epidemic, pandemic, or similar widespread public health concern, resulting in travel restrictions or recommendations or mandates from governmental authorities to avoid large gatherings or to self-quarantine. These impacts include, but are not limited to:

- Significant reductions in demand or significant volatility in demand for one or more of the Company's products, which may be caused by, among other things: the closing of offices and schools where paper is used extensively, the temporary inability of consumers to purchase the Company's products due to illness, quarantine or other travel restrictions, financial hardship, shifts in demand away from one or more of our more discretionary or higher priced products to lower priced products or use of alternatives, stockpiling or similar activity; if prolonged, such impacts can further increase the difficulty of planning for operations and may adversely impact the Company's results;
- Inability to meet the Company's customers' needs and achieve cost targets due to disruptions in the Company's manufacturing and supply arrangements caused by constrained workforce capacity or the loss or disruption of other essential manufacturing and supply elements such as raw materials or other finished product components, transportation, or other manufacturing and distribution capability;
- Failure of third parties on which the Company relies, including the Company's suppliers, distributors, contractors or commercial banks, to meet their obligations to the Company, or significant disruptions in their ability to do so, which may be caused by their own financial or operational difficulties and may adversely impact the Company's operations; or

- Significant changes in the political conditions in the markets in which the Company manufactures, sells or distributes its products, including quarantines, import/export restrictions, price controls, or governmental or regulatory actions, closures or other restrictions that limit or close the Company's operating and manufacturing facilities, restrict the Company's employees' ability to travel or perform necessary business functions, or otherwise prevent the Company's suppliers or customers from sufficiently staffing operations, including operations necessary for the production, distribution and sale of the Company's products, which could adversely impact the Company's results.

Despite the Company's efforts to manage and mitigate these impacts to the Company, their ultimate impact also depends on factors beyond our knowledge or control, including the duration and severity of any such outbreak as well as third-party actions taken to contain its spread and mitigate its public health effects.

The Company's financial results could be affected by changes in U.S. and foreign tax laws or in the mix of our U.S. and foreign earnings, as well as adjustments to our estimates of uncertain tax issues or results from audits by U.S. or foreign tax authorities.

The Company is subject to U.S. and foreign tax laws and regulations. Tax laws, regulations, and administrative practices in various jurisdictions may be subject to significant change, with or without notice, due to economic, political and other conditions, and significant judgment is required in evaluating and estimating our provision and accruals for these taxes. International tax norms governing each country's jurisdiction to tax cross-border international trade have evolved partly due to the Base Erosion and Profit Shifting project led by the Organization for Economic Cooperation and Development and supported by the G20. Changes in these laws and regulations, or any change in the position of tax authorities regarding their application, administration or interpretation could adversely affect the Company's financial results. In addition, a number of countries are actively pursuing changes to their tax laws applicable to multinational corporations, such as the U.S. Tax Cuts and Jobs Acts ("U.S. Tax Reform"), enacted in 2017. Finally, foreign governments may enact tax laws in response to the U.S. Tax Reform that could result in further changes to global taxation and materially impact the Company's financial results.

The U.S. Tax Reform significantly changes how the U.S. taxes corporations. The U.S. Tax Reform requires complex computations to be performed that were not previously required under U.S. tax law, significant judgments to be made in interpretation of the provisions of the U.S. Tax Reform and significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, and other standard-setting bodies could interpret or issue guidance on how provisions of the U.S. Tax Reform will be applied or otherwise administered that is different from the Company's interpretation.

The Company's effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates or changes in the valuation of deferred tax assets and liabilities. The Company is also subject to the examination of its tax returns and other matters by tax authorities and governmental bodies. The Company regularly assesses the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of its provision for taxes and as of December 31, 2020, has a reserve for liabilities relating to uncertain tax positions of \$23 million. Taxing authorities may disagree with the positions the Company has taken regarding the tax treatment or characterization of its transactions. If any tax authorities were successful in challenging the tax treatment or characterization of any of the Company's transactions, it could also adversely affect its financial results.

The Company's intellectual property rights are valuable, and any inability to protect them could reduce the value of its products and its brands.

The Company relies on patent, trademark and other intellectual property laws of the U.S. and other countries to protect its intellectual property rights. However, the Company may be unable to prevent third parties from using its intellectual property without its authorization, which may reduce any competitive advantage it has developed. If the Company had to litigate to protect these rights, any proceedings could be costly, and it may not prevail. The Company cannot guarantee that any U.S. or foreign patents, issued or pending, will provide it with any competitive advantage or will not be challenged by third parties. Additionally, the Company has obtained and applied for U.S. and foreign trademark registrations and will continue to evaluate the registration of additional service marks and trademarks, as appropriate. The Company cannot guarantee that any of its pending patent or trademark applications will be approved by the applicable governmental authorities and, even if the applications are approved, third parties may seek to oppose or otherwise challenge these registrations. The failure to secure any pending patent or trademark applications may limit the Company's ability to protect the intellectual property rights that these applications were intended to cover.

If the Company is unable to successfully retain and develop executive leadership and other key personnel, it may be unable to fully realize critical organizational strategies, goals and objectives.

The success of the Company is substantially dependent on the efforts and abilities of its key personnel, including its executive management team, to develop and implement its business strategies and manage its operations. The failure to retain key personnel or to develop successors with appropriate skills and experience for key positions in the Company could adversely affect the development and achievement of critical organizational strategies, goals and objectives. There can be no assurance that the Company will be able to retain or develop the key personnel it needs and the failure to do so may adversely affect its financial condition and results of operations.

Our operations could be adversely affected by disruptions to our Information Technology (IT) Services.

The Company's IT systems, some of which are dependent on services provided by third parties, serve an important role in the efficient operation of its business. The protection of customers, employees and company data is critical to the Company's business. This role includes ordering and managing materials from suppliers, managing its inventory, converting materials to finished products, facilitating order entry and fulfillment and processing of transactions, summarizing and reporting its financial results, facilitating internal and external communications, administering human resources functions, retaining certain personal information and providing other processes necessary to manage its business. The failure of the Company's IT systems, including any failure of the Company's current systems and/or as a result of transitioning to additional or replacement IT systems, as the case may be, to perform as the Company anticipates could disrupt the Company's business and could result in, among other things, transactions errors, processing inefficiencies, disruption of production and/or deliveries, loss of data and the loss of sales and customers, which could have a material adverse effect on the Company's business, financial position and results of operations and the effectiveness of our internal control over financial reporting could be negatively impact.

The Company is exposed to the risk of cyber incidents in the normal course of business. Cyber incidents may be deliberate attacks for the theft of intellectual property or other sensitive information or may be the result of unintentional events. Like most companies, the Company's information technology systems may be vulnerable to interruption due to a variety of events beyond the Company's control, including, but not limited to, natural disasters, terrorist attacks, power and/or telecommunications failures, computer viruses, hackers and other security issues. The Company has technology security initiatives and disaster recovery plans in place to mitigate the Company's risk to these vulnerabilities, including protection of confidential or personal information, but these measures may not be adequate or implemented properly to ensure that the Company's operations are not disrupted. The Company's IT systems have been, and will likely continue to be, subject to computer viruses or other malicious codes, unauthorized access attempts, phishing and other cyber-incidents. The Company cannot guarantee that its security efforts will prevent breaches or breakdowns to its IT systems or those of its third-party providers. Potential consequences of a material cyber incident, which could result in confidential or personal information being accessed, obtained, damaged or used by unauthorized or improper persons, include damage to the Company's reputation, litigation, inefficiencies or production downtimes and increased cyber security protection and remediation costs. Such consequences could have a negative impact on the Company's ability to meet customers' orders, resulting in a delay or decrease to its revenue and a reduction to its operating margins.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

A description of our mills and related properties is included in Item I, Business.

Production facilities

We own substantially all of our production facilities. We lease substantially all of our sales offices, regional replenishment centers and warehouse facilities. We believe our properties are in good operating condition and are suitable and adequate for the operations for which they are used. We own substantially all of the equipment used in our facilities.

Forestlands

We manage approximately 5 million acres of forestlands that are directly licensed or owned by Domtar in Canada, through efficient management and the application of certified sustainable forest management practices. We also have access to fiber from an additional 25 million acres of public forestlands in Canada that are licensed and managed by third parties. We believe that these forestlands will provide a continuous supply of wood for future needs.

Listing of facilities and locations (1)

CORPORATE OFFICES

Fort Mill, South Carolina
Montreal, Quebec

PULP & PAPER

DIVISION HEADQUARTERS

Fort Mill, South Carolina

Uncoated Freesheet

Espanola, Ontario
Hawesville, Kentucky
Johnsonburg, Pennsylvania
Marlboro (Bennettsville), South Carolina
Nekoosa, Wisconsin
Port Huron, Michigan (2)
Rothschild, Wisconsin
Windsor, Quebec

Pulp

Ashdown, Arkansas
Dryden, Ontario
Kamloops, British Columbia
Plymouth, North Carolina

Materials

Jesup, Georgia (3)

Packaging

Kingsport, Tennessee (4)

Chip Mills

Hawesville, Kentucky
Johnsonburg, Pennsylvania
Marlboro (Bennettsville), South Carolina

Converting and Distribution – Onsite

Ashdown, Arkansas
Rothschild, Wisconsin
Windsor, Quebec

Converting and Forms Manufacturing

Addison, Illinois
Brownsville, Tennessee
Dallas, Texas
DuBois, Pennsylvania
Owensboro, Kentucky
Rock Hill, South Carolina
Tatum, South Carolina
Washington Court House, Ohio
West Carrollton, Ohio

Local Distribution Centers

Buffalo, New York
Cincinnati, Ohio
Cleveland, Ohio
Denver, Colorado
Des Moines, Iowa
Omaha, Nebraska
Phoenix, Arizona
Plain City, Ohio
Salt Lake City, Utah
San Antonio, Texas
San Lorenzo, California
St. Louis, Missouri
Vancouver, Washington
Walton, Kentucky
Wisconsin Rapids, Wisconsin

Regional Replenishment Centers – United States

Charlotte, North Carolina
Chicago, Illinois
Dallas, Texas
Delran, New Jersey
Indianapolis, Indiana
Jacksonville, Florida
Mira Loma, California
Seattle, Washington

Regional Replenishment Centers – Canada

Richmond, Quebec
Toronto, Ontario
Winnipeg, Manitoba

Representative Office – International

Hong Kong, China

Ariva – Canada

Halifax, Nova Scotia
Montreal, Quebec
Mount Pearl, Newfoundland and Labrador
Ottawa, Ontario
Quebec City, Quebec
Toronto, Ontario

- (1) On January 7, 2021, we agreed to sell our Personal Care business to American Industrial Partners (AIP). The Transaction is expected to close in the first quarter of 2021 and reflected in our list of facilities and locations above. For more information on this Transaction, refer to Item 8, Financial Statements and Supplementary Data, under Note 3, “Discontinued Operations”.
- (2) As part of our cost reduction program, we announced the permanent closure of the uncoated freesheet manufacturing at our Port Huron, Michigan mill, which is expected to shut down by the end of the first quarter of 2021.
- (3) Starting January 1, 2020, as a result of changes in our organizational structure, EAM Corporation, a manufacturer of high quality airlaid and ultrathin laminated cores, previously reported under our former Personal Care segment is now presented under our Pulp and Paper business segment.
- (4) We plan to enter the containerboard market with the conversion of our Kingsport paper machine. Once in full operation, the mill will produce and market approximately 600,000 tons annually of high-quality recycled linerboard and medium, providing us with a strategic footprint in a growing market. The conversion is expected to be completed by the end of 2022.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of operations, the Company becomes involved in various legal actions mostly related to contract disputes, patent infringements, environmental and product warranty claims, and labor issues. The Company periodically reviews the status of these proceedings and assesses the likelihood of any adverse judgments or outcomes of these legal proceedings, as well as analyzes probable losses. Although the final outcome of any legal proceeding is subject to a number of variables and cannot be predicted with any degree of certainty, management currently believes that the ultimate outcome of current legal proceedings will not have a material adverse effect on the Company's long-term results of operations, cash flow or financial position. However, an adverse outcome in one or more of the significant legal proceedings could have a material adverse effect on the Company's results, financial condition or cash flow in a given quarter or year.

For a discussion of commitments, legal proceedings and related contingencies, refer to Item 8, Financial Statements and Supplementary Data under, Note 22 "Commitments and Contingencies".

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

Domtar Corporation's common stock is traded on the New York Stock Exchange and the Toronto Stock Exchange under the symbol "UFS".

HOLDERS

At February 5, 2021, the number of shareholders of record (registered and non-registered) of Domtar Corporation common stock was approximately 19,015.

DIVIDENDS AND STOCK REPURCHASE PROGRAM

During 2020, the Company declared one quarterly dividend of \$0.455 per share, to holders of the Company's common stock. Dividends aggregating \$25 million were paid on April 15, 2020, to shareholders of record as of April 2, 2020.

On May 5, 2020, due to the unprecedented market conditions and uncertainty caused by COVID-19, the Company suspended the payment of its regular quarterly dividend and stock repurchase program in order to preserve cash and provide additional flexibility in the current environment. On February 11, 2021, the Company announced that it will resume its stock repurchase program. The Board of Directors will continue to evaluate the Company's capital return program based upon customary considerations, including market conditions.

During 2019, the Company declared one quarterly dividend of \$0.435 and three quarterly dividends of \$0.455 per share, to holders of the Company's common stock. Dividends aggregating \$28 million, \$28 million, \$27 million and \$26 million were paid on April 15, 2019, July 16, 2019, October 15, 2019 and January 15, 2020, respectively, to shareholders of record as of April 2, 2019, July 2, 2019, October 2, 2019 and January 2, 2020, respectively.

The Company's Board of Directors has authorized a stock repurchase program ("the Program") of up to \$1.6 billion. At December 31, 2020, the Company had approximately \$344 million of remaining availability under the Program. Under the Program, the Company is authorized to repurchase, from time to time, shares of its outstanding common stock on the open market or in privately negotiated transactions. The timing and amount of stock repurchases will depend on a variety of factors, including the market conditions, as well as corporate and regulatory considerations. The Program may be suspended, modified or discontinued at any time, and the Company has no obligation to repurchase any amount of its common stock under the Program. The Program has no set expiration date. The Company repurchases its common stock in part to reduce the dilutive effects of our stock options, awards, and to improve shareholders' returns. All shares repurchased are recorded as Treasury stock on the Consolidated Balance Sheets under the par value method at \$0.01 per share.

The Company makes open market purchases of its common stock using general corporate funds. Additionally, the Company may enter into structured stock repurchase agreements with large financial institutions using general corporate funds in order to lower the average cost to acquire shares. The agreements would require the Company to make up-front payments to the counterparty financial institutions which would result in either the receipt of stock at the beginning of the term of the agreements followed by a share adjustment at the maturity of the agreements, or the receipt of either stock or cash at the maturity of the agreements, depending upon the price of the stock.

During 2020, the Company repurchased 1,798,306 shares at an average price of \$33.05 for a total cost of \$59 million.

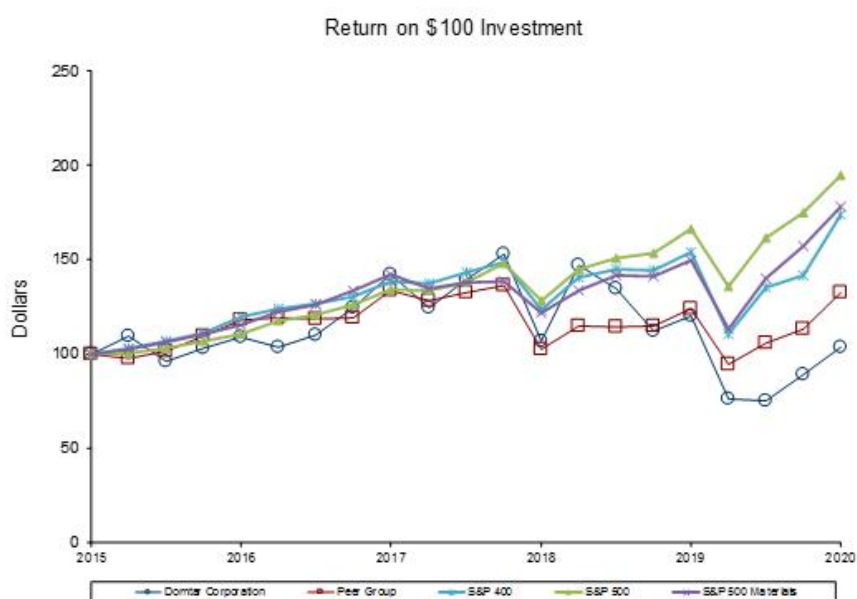
During 2019, the Company repurchased 6,220,658 shares at an average price of \$35.29 for a total cost of \$219 million.

Share repurchase activity under our stock repurchase program was as follows during the year ended December 31, 2020:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Programs (in 000s)
January 1 through March 31, 2020	1,798,306	\$ 33.05	1,798,306	\$ 343,601
April 1 through June 30, 2020	—	\$ —	—	\$ 343,601
July 1 through September 30, 2020	—	\$ —	—	\$ 343,601
October 1 through October 31, 2020	—	\$ —	—	\$ 343,601
November 1 through November 30, 2020	—	\$ —	—	\$ 343,601
December 1 through December 31, 2020	—	\$ —	—	\$ 343,601
	<u>1,798,306</u>	<u>\$ 33.05</u>	<u>1,798,306</u>	<u>\$ 343,601</u>

PERFORMANCE GRAPH

This graph compares the return on a \$100 investment in the Company's common stock on December 31, 2015 with a \$100 investment in an equally-weighted portfolio of a peer group (1), and a \$100 investment in the S&P 400 MidCap Index. This graph assumes that returns are in local currencies and assumes quarterly reinvestment of dividends. The measurement dates are the last trading day of the period as shown.



- (1) On May 18, 2007, the Human Resources Committee of the Board of Directors established performance measures as part of the Performance Conditioned Restricted Stock Units ("PCRSUs") Agreement including the achievement of a total shareholder return compared to a peer group.

The peer group includes: WestRock Company, Ontex Group NV, Glatfelter Corporation, International Paper Co., Kimberly-Clark Corporation, Neenah Paper, Inc., Packaging Corp. of America, Resolute Forest Products Inc., SCA, Sonoco Products Company, Stora Enso Oyj and UPM-Kymmene Corp.

ITEM 6. SELECTED FINANCIAL DATA

The following sets forth selected historical financial data of the Company for the periods and as of the dates indicated. The selected financial data as of and for the fiscal years then ended have been derived from the audited financial statements of Domtar Corporation. All prior periods presented have been restated and prior period amounts have been adjusted to conform with current year presentation, if applicable.

The following table should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8, Financial Statements and Supplementary Data.

FIVE YEAR FINANCIAL SUMMARY <i>(In millions of dollars, except per share figures)</i>	Year ended					
	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	
Statement of Income Data:						
Sales	\$ 3,652	\$ 4,369	\$ 4,565	\$ 4,258	\$ 4,291	
Closure and restructuring costs and impairment of long-lived assets ^{1,2}	235	54	—	31	60	
Depreciation and amortization	223	231	241	257	287	
Operating (loss) income ^{1,2}	(177)	179	395	172	157	
(Loss) earnings from continuing operations	(145)	85	281	239	77	
Earnings (loss) from discontinued operations, net of taxes	18	(1)	2	(497)	51	
Net (loss) earnings ³	(127)	84	283	(258)	128	
Per common share (in dollars)						
(Loss) earnings from continuing operations - Basic	\$ (2.62)	\$ 1.39	\$ 4.47	\$ 3.81	\$ 1.23	
Earnings (loss) from discontinued operations - Basic	\$ 0.33	\$ (0.02)	\$ 0.03	\$ (7.92)	\$ 0.81	
Basic net (loss) earnings	\$ (2.29)	\$ 1.37	\$ 4.50	\$ (4.11)	\$ 2.04	
(Loss) earnings from continuing operations - Diluted	\$ (2.62)	\$ 1.39	\$ 4.45	\$ 3.81	\$ 1.23	
Earnings (loss) from discontinued operations - Diluted	\$ 0.33	\$ (0.02)	\$ 0.03	\$ (7.92)	\$ 0.81	
Diluted net (loss) earnings	\$ (2.29)	\$ 1.37	\$ 4.48	\$ (4.11)	\$ 2.04	
Cash dividends paid per common share	\$ 0.91	\$ 1.78	\$ 1.72	\$ 1.66	\$ 1.63	
Balance Sheet Data:						
Cash and cash equivalents	\$ 309	\$ 61	\$ 111	\$ 139	\$ 125	
Property, plant and equipment, net	2,023	2,223	2,229	2,354	2,434	
Total assets	4,856	4,903	4,925	5,212	5,680	
Long-term debt due within one year	13	1	1	1	63	
Long-term debt	1,084	937	852	1,126	1,216	
Total shareholders' equity	2,260	2,376	2,538	2,483	2,676	

Discontinued operations: On January 7, 2021, we agreed to sell our Personal Care business. As a result, effective on December 31, 2020, we classified our Personal Care business as a discontinued operations and reclassified the Personal Care assets and liabilities to assets and liabilities held for sale on our balance sheets, for all periods presented.

- 1 In 2020, we recorded \$136 million of accelerated depreciation under Impairment of long-lived assets related to our cost reduction program within. In addition, we recorded \$99 million of Closure and restructuring costs in 2020 related to the cost reduction program. For additional information, refer to Item 8, Financial Statement and Supplementary Data, Note 16 "Closure and Restructuring Costs and Impairment of Long-Lived Assets."
- 2 In 2019, we recorded \$32 million of accelerated depreciation under Impairment of long-lived assets related to our decision to permanently close two paper machines. In addition, we recorded \$22 million of Closure and restructuring costs in 2019 related to the aforementioned. For additional information, refer to Item 8, Financial Statement and Supplementary Data, under Note 16 "Closure and Restructuring Costs and Impairment of Long-Lived Assets."
- 3 In 2017 and 2018, our net earnings (loss) and earnings (loss) per common share were impacted by the initial application of the U.S. Tax Reform of 2017.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with Domtar Corporation's audited consolidated financial statements and notes thereto included in Item 8, Financial Statements and Supplementary Data. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed in Item 1, Business, under "Forward-looking statements", as well as in Item 1A, Risk Factors, in this report. Except where otherwise indicated, all financial information reflected herein is determined on the basis of accounting principles generally accepted in the United States.

The information contained on our website, www.domtar.com, is not incorporated by reference into this Form 10-K and should in no way be construed as a part of this or any other report that we file with or furnish to the SEC.

In accordance with industry practice, in this report, the term "ton" or the symbol "ST" refers to a short ton, an imperial unit of measurement equal to 0.9072 metric tons. The term "metric ton" or the symbol "ADMT" refers to an air dry metric ton. In this report, unless otherwise indicated, all dollar amounts are expressed in U.S. dollars, and the term "dollars" and the symbol "\$" refer to U.S. dollars. In the following discussion, unless otherwise noted, references to increases or decreases in income and expense items, prices, contribution to net earnings (loss), and shipment volumes are based on the twelve-month periods ended December 31, 2020, 2019 and 2018. The twelve month periods are also referred to as 2020, 2019 and 2018. References to notes refer to footnotes to the consolidated financial statements and notes thereto included in Item 8, Financial Statements and Supplementary Data.

This MD&A is intended to provide investors with an understanding of our recent performance, financial condition and outlook. Topics discussed and analyzed include:

- Overview
- 2020 Highlights
- Impact of the COVID-19 Pandemic and Outlook
- Cost Reduction Program
- Review of Continuing Operations
- Discontinued Operations of our Personal Care Business
- Liquidity and Capital Resources
- Recent Accounting Pronouncements and Critical Accounting Estimates and Policies

For a discussion of the year ended December 31, 2019 compared to the year ended December 31, 2018, other than "Results of Operations", please refer to Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K for year ended December 31, 2019, filed with the SEC on February 25, 2020.

Sale of Personal Care Business

On January 7, 2021, we agreed to sell our Personal Care business to American Industrial Partners ("AIP"), for a purchase price of \$920 million in cash (the "Transaction"). The Transaction is expected to close in the first quarter of 2021. Based on its magnitude and because we are exiting the Personal Care business, the sale represents a significant strategic shift that has a material effect on our operations and financial results. Accordingly, all periods presented reflect the Personal Care business as a discontinued operation. Our Personal Care business was previously disclosed as a separate reportable segment. For more information on our discontinued operations, refer to Item 8, Financial Statements and Supplemental Data, under Note 3, "Discontinued Operations".

Purchase of Appvion Point of Sale Business

On April 27, 2020, we completed the acquisition of the Point of Sale paper business from Appvion Operations Inc. The business includes the coater and related equipment located at Appvion's West Carrollton, Ohio, facility as well as a license for all corresponding intellectual property and assumed liabilities related to post-retirement benefits. The results of this business have been included in the consolidated financial statements as of April 27, 2020 and are presented in the Pulp and Paper business. For more information, refer to Item 8, Financial Statements and Supplemental Data, under Note 4 "Acquisition of Business".

Change in Reporting for EAM Corporation

Starting January 1, 2020, as a result of changes in our organizational structure, EAM Corporation, a manufacturer of high quality airlaid and ultrathin laminated cores, previously reported under our former Personal Care segment is now presented under our Pulp and Paper business. Prior period results have been restated to the new presentation with no significant impact on results. For more information, refer to Item 8, Financial Statements and Supplemental Data, under Note 24 “Segment Disclosures”.

OVERVIEW

Following our agreement to sell our Personal Care business, we now operate as a single reportable segment as described below, which also represents our only operating segment.

Pulp and Paper: Our Pulp and Paper business consists of the design, manufacturing, marketing and distribution of communication, specialty and packaging papers, as well as softwood, hardwood and fluff pulps and high quality airlaid and ultrathin laminated cores.

Our segment measure of profit (operating income (loss) from continuing operations) is used by management to evaluate performance and make operational decisions. Management believes that this measure allows for a better understanding of cost trends, operating efficiencies, prices and volume. Business segment operating income (loss) is defined as earnings (loss) from continuing operations before income taxes and equity losses, excluding corporate items, interest expense, net, and non-service components of net periodic benefit cost. Corporate expenses are allocated to our segment with the exception of certain discretionary charges and credits, which we present under “Corporate” and do not allocate to the segment.

2020 HIGHLIGHTS

- We reported an operating loss of \$177 million, compared to operating income of \$179 million in 2019
- We reported a loss from continuing operations of \$145 million compared to earnings from continuing operations of \$85 million in 2019
- Earnings from discontinued operations, net of taxes amounted to \$18 million in 2020, including a loss on classification as held for sale, net of tax, of \$45 million
- Sales decreased by 16% from 2019. Net average selling prices for pulp and paper were down from 2019. Our manufactured paper volume was down while our pulp volume was up when compared to 2019
- Recognition of closure and restructuring charges and accelerated depreciation under Impairment of long-lived assets, of \$99 million and \$136 million, respectively, mostly related to our announced cost reduction program
- Recognition of \$36 million (CDN \$48 million) from the Canada Emergency Wage Subsidy (“CEWS”) and received a \$7 million payment from waiving the non-production clause related to the sale agreement of our Lebel-sur-Quévillon kraft pulp mill in 2012
- We repurchased \$59 million of our common stock and paid \$51 million in dividends. Our capital return program, which includes our regular quarterly dividend and stock repurchase program, was suspended in the second quarter of 2020. On February 11, 2021, we announced that we will resume our stock repurchase program

FINANCIAL HIGHLIGHTS <i>(In millions of dollars, unless otherwise noted)</i>	Twelve months ended			Variance 2020 vs. 2019		Variance 2019 vs. 2018	
	December 31, 2020	December 31, 2019	December 31, 2018	\$	%	\$	%
Sales	\$ 3,652	\$ 4,369	\$ 4,565	\$ (717)	-16%	\$ (196)	-4%
Operating (loss) income (a)							
Pulp and Paper	(143)	226	442	(369)	-163%	(216)	-49%
Corporate	(34)	(47)	(47)	13	28%	—	-%
Operating (loss) income	(177)	179	395	(356)	-199%	(216)	-55%
(Loss) Earnings from continuing operations	(145)	85	281	(230)	-271%	(196)	-70%
Earnings (loss) from discontinued operations, net of taxes	18	(1)	2	19	1900%	(3)	-150%
Net (loss) earnings	(127)	84	283	(211)	-251%	(199)	-70%
Basic net (loss) earnings per common share (in dollars) (b):							
(Loss) earnings from continuing operations	\$ (2.62)	\$ 1.39	\$ 4.47	\$ (4.01)		\$ (3.08)	
Earnings (loss) from discontinued operations	\$ 0.33	\$ (0.02)	\$ 0.03	\$ 0.35		\$ (0.05)	
Basic net (loss) earnings	\$ (2.29)	\$ 1.37	\$ 4.50	\$ (3.66)		\$ (3.13)	
Diluted net (loss) earnings per common share (in dollars) (b):							
(Loss) earnings from continuing operations	\$ (2.62)	\$ 1.39	\$ 4.45	\$ (4.01)		\$ (3.06)	
Earnings (loss) from discontinued operations	\$ 0.33	\$ (0.02)	\$ 0.03	\$ 0.35		\$ (0.05)	
Diluted net (loss) earnings	\$ (2.29)	\$ 1.37	\$ 4.48	\$ (3.66)		\$ (3.11)	

	At December 31, 2020	At December 31, 2019
Total assets	\$ 4,856	\$ 4,903
Total long-term debt, including current portion	\$ 1,097	\$ 938

- (a) Includes closure and restructuring charges and accelerated depreciation under Impairment of long-lived assets related to our announced cost reduction program of \$96 million and \$136 million, respectively as well as closure and restructuring charges of \$3 million under Corporate in 2020. In 2019, we recognized closure and restructuring charges and accelerated depreciation under Impairment of long-lived assets of \$22 million and \$32 million, respectively associated with our decision to permanently close two paper machines. See Item 8, Financial Statements and Supplementary Data, under Note 16 "Closure and Restructuring Costs and Impairment of Long-Lived Assets" for more information. In 2018, we did not recognize any closure and restructuring charges or impairment of long-lived assets.
- (b) See Item 8, Financial Statements and Supplementary Data, under Note 6 "Earnings (Loss) per Common Share" for more information on the calculation of net earnings per common share.

IMPACT OF THE COVID-19 PANDEMIC

With the unprecedented and rapid spread of COVID-19 and social distancing measures implemented throughout the world due to the pandemic, this virus has had a profound impact on human health, the global economy and society in general. We are actively monitoring the impact of COVID-19 on all aspects of our business, including how it is impacting our employees, operations, customers, suppliers, liquidity and capital resources.

Our operations are considered to be essential services in the jurisdictions where we operate. Certain of our paper products are used in the testing for COVID-19 as well as for personal protection medical gowns. However, demand for our paper has declined significantly since the beginning of April, largely due to work-from-home rules and the overall economic slowdown. The length and severity of the reduction in paper demand is uncertain; at the current time, we expect the adverse impact to continue through the first quarter of 2021. Beyond the first quarter of 2021, paper demand will depend largely on when, and the extent to which, work-from-home subsidies and on the timing of the return to normal global economic activities.

Effects from COVID-19 began for us at the end of the first quarter of 2020 but were not material to the three-month's results ended March 31, 2020. Shipments of paper were lower by approximately 19% in 2020 when compared to 2019. As a result of the decrease in demand, on August 7, 2020, we announced the permanent closure of the uncoated freesheet manufacturing at our Kingsport, Tennessee and Port Huron, Michigan mills, the remaining paper machine at our Ashdown, Arkansas mill and the converting center in Ridgefields, Tennessee. These actions reduced our annual uncoated freesheet paper capacity by approximately 721,000 short tons, and resulted in a workforce reduction of approximately 750 employees. The Kingsport and Ashdown paper machines, which have been idled since April 2020, did not recommence operations. Our Ridgefields converting center ceased operations at the end of the third quarter of 2020, while our Port Huron mill is expected to shut down by the end of the first quarter of 2021.

Our pulp shipments were higher by approximately 7% in 2020 when compared to 2019. We expect near-term pulp markets to gradually improve driven by better demand, maintenance outages and restocking in China.

Below we further describe specific impacts and the measures we have taken since March 2020.

Health and Safety of our Employees

The safety of our employees continues to be our primary focus. As COVID-19 has evolved, we have taken numerous steps to protect the health and safety of our employees, including: social distancing, providing personnel protection and thermal scanning, health monitoring, contact tracing and enhanced cleaning measures. In addition, we implemented travel restrictions and work-from-home policies for employees who have the ability to work remotely.

Operations and Supply Chain

We continue to operate in compliance with the orders and restrictions imposed by government authorities in each of our locations, and we are working with our customers to meet their specific shipment needs. We continue to place a priority on business continuity and contingency planning, including potential planning for extended closures of any key facilities, whether because of government action or workforce disruption, or because of disruptions related to our key suppliers that might arise related to COVID-19. At this point, we have experienced only minor disruptions. We are actively monitoring our supply chain, and we may experience disruptions in our supply chain as the pandemic continues. We cannot reasonably estimate the potential impacts or timing of those events, nor can we reasonably estimate our ability to mitigate such impacts.

Cost Reduction Program

On August 7, 2020 we announced the implementation of a cost reduction program targeting \$200 million in annual run-rate cost savings to be realized by the end of 2021. The goal of the program is to build a stronger business operation, enhance our cost efficiency, improve operating margins and maximize productivity and cash flow. The cost saving initiatives includes capacity reduction and asset closures (noted above), mill-level cost savings and rightsizing of support functions. See Cost Reduction Program below for more information on this program.

Liquidity and Capital Resources

We have taken actions and may take other actions, intended to increase our cash position and preserve financial flexibility in light of the current uncertainty in the global markets. On May 5, 2020, we entered into a five-year \$300 million term loan. We suspended our regular quarterly dividend and stock repurchase program in 2020 and on February 11, 2021, we announced that we would resume our stock repurchase program. In addition, we completed a review of all planned capital expenditures for 2020 and reduced or delayed spending without compromising on safety or regulatory compliance. Our capital expenditures for 2020 were \$175 million, a decrease of approximately \$75 million compared to our planned spending.

Government Assistance

The U.S. and Canadian governments have launched several support programs to provide assistance to companies during the COVID-19 pandemic. We continue to review the details of the various programs to determine whether we might qualify.

The Government of Canada created the CEWS to provide financial support for businesses during the COVID-19 pandemic and to prevent large layoffs. CEWS allows eligible entities to receive a subsidy retroactive to March 15, 2020. We qualified and applied for all periods identified under CEWS, from March 15 through December 31, 2020 and recognized \$36 million (CDN \$48 million) of income related to this subsidy in 2020.

OUTLOOK

In 2021, paper demand remains uncertain and dependent upon the COVID-19 recovery, in particular quarantine measures impacting the return to office and school. We expect near-term pulp markets to gradually improve driven by better demand, maintenance outages and restocking in China. Overall raw material costs are expected to moderately increase and freight costs are also expected to be higher.

COST REDUCTION PROGRAM

On August 7, 2020, we announced the implementation of a cost reduction program, targeting \$200 million in annual run-rate cost savings to be realized by the end of 2021. The goal of the program is to build a stronger business operation, enhance our cost efficiency, improve operating margins and maximize productivity and cash flow. The costs saving initiatives include capacity reduction and asset closures, mill-level cost savings and rightsizing support functions. The leaner organizational structure is also expected to improve cross-functional collaboration, leveraging more efficient business processes.

During 2020, we recorded \$136 million of accelerated depreciation under Impairment of long-lived assets on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss). Additionally, we recorded \$34 million of severance and termination costs, \$31 million of inventory obsolescence, \$12 million of environmental costs, \$4 million of pension curtailment and settlement charges and \$18 million of licenses fees, write-offs and other costs, under Closure and restructuring costs on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss).

Kingsport, Tennessee mill

We plan to enter the linerboard market with the conversion of our Kingsport paper machine. Once in full operation, the mill will produce and market approximately 600,000 tons annually of high-quality recycled linerboard and medium, providing us with a strategic footprint in a growing adjacent market. The conversion is expected to be completed by the end of 2022.

We estimate the conversion cost to be between \$300 and \$350 million. Once fully operational, the mill is expected to be a low-cost, first quartile recycled linerboard mill in North America. The converted mill is expected to directly employ approximately 160 employees.

Ashdown, Arkansas mill

We will complete the conversion of our Ashdown mill to 100% softwood and fluff pulp, which will require \$15 to \$20 million of capital investments and is expected to be completed in early 2021. The mill will produce additional market hardwood pulp until it converts the fiberline to softwood pulp. The conversion of the fiberline to 100% softwood is also necessary for an eventual expansion into containerboard. Following the fiberline conversion, Ashdown will have annual production capacity of 775,000 tons of fluff and softwood pulp. Refer to Item 8, Financial Statements and Supplemental Data, under Note 16 "Closure and Restructuring Costs and Impairment of Long-Lived Assets" for more information.

REVIEW OF OPERATIONS

This section presents a discussion and analysis of our 2020, 2019 and 2018 sales, operating (loss) income and other information relevant to the understanding of our results from continuing operations.

EAM's results of operations, previously reported under our former Personal Care segment, are now presented under our Pulp and Paper business with no significant impact on our results. Prior period results have been restated to the new presentation.

ANALYSIS OF SALES

	Twelve months ended			Variance 2020 vs. 2019		Variance 2019 vs. 2018	
	December 31, 2020	December 31, 2019	December 31, 2018	\$	%	\$	%
Sales	\$ 3,652	\$ 4,369	\$ 4,565	(717)	-16%	(196)	-4%
Shipments							
Paper - manufactured (in thousands of ST)	2,230	2,745	2,971	(515)	-19%	(226)	-8%
Communication Papers	1,825	2,299	2,446	(474)	-21%	(147)	-6%
Specialty and Packaging papers	405	446	525	(41)	-9%	(79)	-15%
Paper - sourced from third parties (in thousands of ST)	69	93	109	(24)	-26%	(16)	-15%
Paper - total (in thousands of ST)	2,299	2,838	3,080	(539)	-19%	(242)	-8%
Pulp (in thousands of ADMT)	1,787	1,664	1,647	123	7%	17	1%

ANALYSIS OF CHANGES IN SALES

	2020 vs. 2019				2019 vs. 2018			
	% Change in Sales due to				% Change in Sales due to			
	Net Price	Volume / Mix	Currency	Total	Net Price	Volume / Mix	Currency	Total
Sales	-5%	-11%	-%	-16%	1%	-5%	-%	-4%

Sales in 2020 decreased by \$717 million, or 16% when compared to sales in 2019. This decrease in sales is mostly due to a decrease in our paper sales volumes and a decrease in net average selling prices for pulp and paper. This decrease was partially offset by an increase in pulp sales volumes.

Sales in 2019 decreased by \$196 million, or 4% when compared to sales in 2018. This decrease in sales is mostly due to a decrease in our paper sales volumes and a decrease in net average selling price for pulp. This decrease was partially offset by an increase in net average selling price for paper as well as an increase in our pulp sales volumes.

ANALYSIS of CHANGE IN OPERATING INCOME (LOSS)
2020 VS. 2019

	\$ Change in Operating Income (Loss) due to									
	Volume/			Operating (b)			Depreciation/		Other Income/	Total
	Mix	Net Price	Input Costs (a)	Expenses	Currency	Impairment (c)	Restructuring (d)	Expense (e)		
Pulp and Paper	(125)	(208)	77	37	10	(97)	(74)	11	(369)	
Corporate	—	—	—	16	—	—	(3)	—	13	
Operating income (loss)	(125)	(208)	77	53	10	(97)	(77)	11	(356)	

(a) Includes raw materials (such as fiber and chemicals) and energy costs.

(b) Includes maintenance, freight costs, selling, general and administrative (“SG&A”) expenses and other costs.

(c) Depreciation charges were lower by \$7 million in 2020, excluding foreign currency impact. In 2020, we recorded \$136 million of accelerated depreciation under Impairment of long-lived assets related to our cost reduction program. In 2019, we recorded \$32 million of accelerated depreciation under Impairment of long-lived assets related to our decision to permanently close two paper machines.

(d) 2020 restructuring charges relate to:2019 restructuring charges relate to:

-Severance and termination costs (\$34 million)	-Severance and termination costs (\$16 million)
-Inventory write-down (\$31 million)	-Inventory write-down (\$4 million)
-Environmental costs (\$12 million)	-Other costs (\$2 million)
-Pension curtailment and settlement charges (\$4 million)	
-License fees, write-offs and other costs (\$18 million)	

(e) 2020 other operating expenses/income includes:2019 other operating expenses/income includes:

- Income from waiving a non-compete clause (\$7 million)	-Environmental provision (\$4 million)
- Net gain on sale of property, plant & equipment (\$1 million)	-Foreign exchange loss (\$3 million)
- Bad debt expense (\$4 million)	-Bad debt expense (\$1 million)
- Environmental provision (\$2 million)	-Other income (\$4 million)
- Other income (\$5 million)	

2020 vs. 2019

Operating loss in our Pulp and Paper business amounted to (\$143) million in 2020, a decrease in income of \$369 million, when compared to operating income of \$226 million in 2019. Our results were negatively impacted by:

- Lower net average selling prices for pulp and paper (\$208 million)
- Lower volume/ mix (\$125 million) mostly related to lower volume of paper, partially offset by higher volume of pulp
- Higher depreciation/impairment charges (\$97 million). We recorded \$136 million of accelerated depreciation under Impairment of long-lived assets, related to our cost reduction program in 2020 compared to \$32 million of accelerated depreciation under Impairment of long-lived assets, related to our decision to permanently close two paper machines in 2019. Depreciation charges were lower by \$7 million when compared to 2019

- Higher restructuring charges (\$74 million) in 2020 as a result of the cost reduction program (\$96 million) compared to the decision to permanently close two paper machines in 2019 (\$22 million)

These decreases were partially offset by:

- Lower input costs (\$77 million) mostly related to lower cost of fiber, due in part to better weather and favorable market conditions compared to 2019
- Lower operating expenses (\$37 million) mostly due to lower maintenance and other costs due to our cash conservation initiatives (including our cost reduction program) in light of the COVID-19 pandemic and amounts recognized from the CEWS when compared to 2019, partially offset by lower production
- Higher other income (\$11 million)
- Positive impact of a weaker Canadian dollar on our Canadian denominated expenses, net of our hedging program (\$10 million)

OTHER FACTORS

Corporate

We incurred \$34 million of corporate charges in 2020, a decrease of \$13 million compared to corporate charges of \$47 million in 2019. This decrease was mostly due to lower SG&A expenses and partially offset by an increase in restructuring expenses, both as a result of the cost reduction program.

Interest Expense, net

We incurred \$58 million of net interest expense in 2020, an increase of \$6 million compared to net interest expense of \$52 million in 2019. The net interest expense was impacted by the \$300 million Term Loan entered into on May 5, 2020 as well as an increase in borrowing under the revolving credit facility.

Income Taxes

We recorded an income tax benefit of \$76 million in 2020 compared to an income tax expense of \$17 million in 2019, which yielded an effective tax rate of 35% and 16% for 2020 and 2019, respectively.

On January 7, 2021, we agreed to sell our Personal Care business to American Industrial Partners (AIP) for \$920 million. As such, for the December 31, 2020 reporting period, we are no longer indefinitely reinvested in that business and have classified our investment in that business as held for sale. Accordingly, we have recorded a deferred tax asset of \$51 million for the difference between the net book value of the business and the tax basis of that business which impacted the effective tax rate in 2020.

We have assessed the value of the deferred tax asset related to the book/tax basis difference, which is expected to be a capital loss for tax purposes upon the completion of the sale and determined that we are not likely to realize a full benefit from the asset. As such, we have recorded a valuation allowance of \$44 million associated with this deferred tax asset. During the year, we also analyzed our existing Arkansas research and development credits and determined an additional valuation allowance of \$3 million should be recorded since it is expected these credits will expire un-utilized. These amounts unfavorably impacted the effective tax rate in 2020.

During 2020, we generated a U.S. tax net operating loss which, in accordance with the Coronavirus Aid, Relief, and Economic Security (CARES) Act will be carried back to 2015. In 2015, the US federal tax rate was 35%, versus the current rate of 21%. Therefore, we recorded an additional tax benefit of \$5 million related to the tax rate benefit of the loss which favorably impacted the effective tax rate in 2020. We also recorded \$17 million of tax credits, mainly research and experimentation credits, which favorably impacted the effective tax rate in 2020. Since we have a tax loss in 2020, the tax credits will be carried forward and are expected to be utilized in future years.

As a result of the deemed mandatory repatriation tax requirement of the U.S. Tax Reform, we have taxed our undistributed foreign earnings as of December 31, 2017, at reduced tax rates. After completing our evaluation of the U.S. Tax Reform's impact on our business operations, we had determined that we are no longer indefinitely reinvested in these undistributed foreign earnings as well as foreign earnings after December 31, 2017. As such, as of December 31, 2020, we have recorded a deferred tax liability of \$11 million (\$12 million as of December 31, 2019) for foreign withholding tax and various state income taxes associated with future repatriation of these earnings. This additional \$1 million tax benefit impacted the effective tax rate for 2020 (\$2 million tax expense for 2019).

We recorded \$18 million of tax credits in 2019, mainly research and experimentation credits, which significantly impacted the effective tax rate. Arkansas legislation changes were passed in 2019 which reduced the state tax rate and changed how the apportionment factor is calculated. This resulted in a deferred state tax benefit of \$4 million. Additionally, a valuation allowance of \$5 million was recorded in 2019 on state attributes we do not expect to utilize before they expire.

Economic conditions and uncertainties

The markets in which our pulp and paper business operate are highly competitive with well-established domestic and foreign manufacturers. Most of our products are commodities that are widely available from other producers as well. Because commodity products have few distinguishing qualities from producer to producer, competition for these products is based primarily on price, which is determined by supply relative to demand. We also compete on the basis of product quality, breadth of offering and service solutions. Further, we compete against electronic transmission and document storage alternatives. As a result of such competition, we are experiencing ongoing decreasing demand for most of our existing paper products. In addition, current global economic conditions are highly volatile due to the COVID-19 pandemic, resulting in both market size contractions in certain countries due to economic slowdowns and government restrictions on movement.

The pulp market is highly fragmented with many manufacturers competing worldwide. Competition is primarily on the basis of access to low-cost wood fiber, product quality and competitively priced pulp products.

The high degree of uncertainty and volatility day-to-day and the longer-term potential impacts of the economic slowdown remain unclear. In 2021, paper demand remains uncertain and dependent upon the COVID-19 recovery, in particular quarantine measures impacting the return to office and school. We expect near-term pulp markets to gradually improve driven by better demand, maintenance outages and restocking in China. Overall raw material costs are expected to moderately increase and freight costs are also expected to be higher.

2019 VS. 2018

	\$ Change in Operating Income (Loss) due to									Total
	Volume/ Mix	Net Price	Input Costs (a)	Operating (b) Expenses		Currency	Depreciation/ Impairment (c)	Restructuring (d)	Other Income/ Expense (e)	
Pulp and Paper	(46)	52	(46)	(128)	8	(23)	(22)	(11)	(216)	
Corporate	—	—	—	(6)	—	—	—	6	—	
Operating income (loss)	(46)	52	(46)	(134)	8	(23)	(22)	(5)	(216)	

(a) Includes raw materials (such as fiber and chemicals) and energy costs.

(b) Includes maintenance, freight costs, selling, general and administrative (“SG&A”) expenses and other costs.

(c) Depreciation charges were lower by \$9 million in 2019, excluding foreign currency impact. We recorded \$32 million of accelerated depreciation under Impairment of long-lived assets related to our decision to permanently close two paper machines (2018 – nil).

(d) 2019 restructuring charges relates to:2018 restructuring charges relates to:

-Severance and termination costs (\$16 million) -Nil

-Inventory write-down (\$4 million)

-Other costs (\$2 million)

(e) 2019 other operating expenses/income includes:2018 other operating expenses/income includes:

-Environmental provision (\$4 million)

-Foreign exchange loss (\$3 million)

-Bad debt expense (\$1 million)

-Other income (\$4 million)

-Net gain on sale of property, plant and equipment (\$4 million)

-Foreign exchange gain (\$3 million)

-Environmental provision (\$5 million)

-Bad debt expense (\$2 million)

-Other income (\$1 million)

Operating income in our Pulp and Paper business amounted to \$226 million in 2019, a decrease of \$216 million, when compared to operating income of \$442 million in 2018. Our results were negatively impacted by:

- Higher operating expenses (\$128 million) mostly due to lower production as well as higher maintenance and fixed costs due to timing of major maintenance
- Higher input costs (\$46 million) mostly related to higher costs of fiber due mostly to severe weather conditions as well as unfavorable market conditions, partially offset by lower costs of chemicals and energy
- Lower volume and mix (\$46 million) mostly related to lower volume of paper, partially offset by higher volume of pulp
- Higher depreciation/impairment charges (\$23 million) mostly due to our decision to permanently close two paper machines in 2019
- Higher restructuring charges (\$22 million) due to our decision to permanently close two paper machines in 2019
- Higher other income/expense (\$11 million)

These decreases were partially offset by:

- Higher average selling prices for paper partially offset by lower average selling prices for pulp (\$52 million)
- Positive impact of a weaker Canadian dollar on our Canadian denominated expenses, net of our hedging program (\$8 million)

Our Espanola pulp and specialty paper mill underwent an extensive audit and inspection of major components during its outage in June 2019. Following the inspection and given the cyclically low pulp prices, we made the decision to fast-track some maintenance work that was originally planned for 2020 in order to address some reliability risks. This extended shutdown impacted mostly our second half of 2019 by adding approximately \$36 million of maintenance costs and lowering our total production by approximately 60,000 tonnes.

OTHER FACTORS

Corporate

We incurred \$47 million of corporate charges in both 2019 and 2018. Corporates charges decreased mostly due to a decrease in environmental provision and was offset by an increase in SG&A expenses.

Interest expense, net

We incurred \$52 million of net interest expense in 2019, a decrease of \$10 million compared to net interest expense of \$62 million in 2018. The net interest expense was impacted by the repayment of the \$300 million Term Loan in the fourth quarter of 2018.

Income Taxes

We recorded an income tax expense of \$17 million in 2019 compared to an income tax expense of \$68 million in 2018, which yielded an effective tax rate of 16% and 19% for 2019 and 2018, respectively.

We recorded \$18 million of tax credits in 2019, mainly research and experimentation credits, which significantly impacted the effective tax rate. Arkansas legislation changes were passed in 2019 which reduced the state tax rate and changed how the apportionment factor is calculated. This resulted in a deferred state tax benefit of \$4 million. Additionally, a valuation allowance of \$5 million was recorded on state attributes we do not expect to utilize before they expire.

As a result of the deemed mandatory repatriation tax requirement of the U.S. Tax Reform, we have taxed our undistributed foreign earnings as of December 31, 2017, at reduced tax rates. After completing our evaluation of the U.S. Tax Reform's impact on business operations, we have determined that we are no longer indefinitely reinvested in these undistributed foreign earnings as well as foreign earnings after December 31, 2017. Therefore, as of December 31, 2019, we have recorded a deferred tax liability of \$12 million (\$10 million as December 31, 2018) for foreign withholding tax and various state income taxes associated with future repatriation of these earnings. This \$2 million tax expense impacted the effective tax rate for 2019 (\$10 million expense for 2018).

We recorded \$18 million of tax credits in 2018, mainly research and experimentation credits, which significantly impact the effective tax rate. We also recognized \$3 million of tax benefits relating to 2018 law changes in Sweden and various U.S. states which favorably impacted our effective tax rate.

On December 22, 2017, the U.S. Tax Reform was signed into law. The U.S. Tax Reform significantly changed U.S. tax law for businesses by, among other things, lowering the maximum federal corporate income tax rate from 35% to 21% effective January 1, 2018, implementing a territorial tax system, and imposing a one-time deemed repatriation tax on accumulated foreign earnings. Additionally, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the U.S. Tax Reform. December 22, 2018 marked the end of the measurement period for purposes of SAB 118. As such, we completed our analysis, including currently available legislative updates, and recorded an additional tax benefit of \$13 million for the year ended December 31, 2018. Of this benefit, \$7 million related to adjustments to the deemed mandatory repatriation tax and \$6 million related to the revaluation of our net deferred tax liabilities.

DISCONTINUED OPERATION

On January 7, 2021, we signed an agreement to sell our Personal Care business. Its results of operations are reported as discontinued operations for all periods presented. For the year ended December 31, 2020, we reported earnings on discontinued operations, net of taxes, of \$18 million (2019 - loss from discontinued operations, net of taxes of \$1 million; 2018 - earnings from discontinued operations, net of taxes, of \$2 million). For more information, refer to Item 8, Financial Statements and Supplemental Data, under Note 3, "Discontinued Operations".

STOCK-BASED COMPENSATION EXPENSE

Under the Omnibus Plan, we may award to key employees and non-employee directors, at the discretion of the Human Resources Committee of the Board of Directors, non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock units, performance-conditioned restricted stock units, performance share units, deferred share units ("DSUs") and other stock-based awards. The non-employee directors only receive DSUs. We generally grant awards annually and use, when available, treasury stock to fulfill awards settled in common stock and options exercised.

For the year ended December 31, 2020, stock-based compensation expense recognized in our results from continuing and discontinued operations was \$7 million (2019 - \$22 million) for all of the outstanding awards. Compensation costs not yet recognized amounted to \$15 million (2019 - \$16 million) and will be recognized over the remaining service period of approximately 14 months. The aggregate value of liability awards settled in 2020 was \$6 million (2019 - \$12 million). The total fair value of equity awards settled in 2020 was \$6 million (2019 - \$11 million), representing the fair value at the time of settlement. The fair value at the grant date for these settled equity awards was \$7 million (2019 - \$6 million). Compensation costs for performance awards are based on management's best estimate of the final performance measurement.

LIQUIDITY AND CAPITAL RESOURCES

Our principal cash requirements are for ongoing operating costs, pension contributions, working capital and capital expenditures, as well as principal and interest payments on our debt and income tax payments. We expect to fund our liquidity needs primarily with internally generated funds from our operations and, to the extent necessary, through borrowings under our \$700 million credit facility, of which \$646 million is currently undrawn and available, or through our \$150 million receivables securitization facility, of which \$111 million is currently undrawn and available. Under adverse market conditions, there can be no assurance that these agreements would be available or sufficient. See "Capital Resources" below.

Our ability to make payments on the requirements mentioned above will depend on our ability to generate cash in the future, which is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Our credit and receivable securitization facilities and debt indentures impose various restrictions and covenants on us that could limit our ability to respond to market conditions, to provide for unanticipated capital investments or to take advantage of business opportunities.

A portion of our cash is held outside the U.S. by foreign subsidiaries. The earnings of the foreign subsidiaries reflect full provision for local income taxes. The U.S. Tax Reform includes a mandatory one-time tax on accumulated earnings of foreign subsidiaries for which we recorded a provisional repatriation tax amount of \$46 million in 2017 and adjusted by \$7 million in 2018. After completing our evaluation of the U.S. Tax Reform's impact on the business operations, we have determined that we are no longer indefinitely reinvested in these undistributed foreign earnings as well as foreign earnings after December 31, 2017. We remain indefinitely reinvested in the outside basis differences of our foreign subsidiaries, except for our Personal Care business which we are selling. We do not anticipate any additional cash tax liability associated with repatriating the proceeds of the sale other than what is already provided.

Operating Activities

Our operating cash flow requirements are primarily for salaries and benefits, the purchase of raw materials, including fiber and energy, and other expenses such as income tax and property taxes.

Cash flows from operating activities, including discontinued operations, totaled \$411 million in 2020, a \$31 million decrease compared to cash flows from operating activities of \$442 million in 2019. This decrease in cash flows from operating activities is primarily due to a decrease in profitability partially offset by an improvement in cash flow from working capital requirements. We received income tax refunds, net of payments, of \$22 million in 2020 compared to income tax payments, net of refunds of \$59 million in 2019. We paid \$4 million of employer pension and other post-retirement contributions in excess of pension and other post-retirement expense in 2020 compared to 2019 when we paid \$1 million of employer pension and other post-retirement contributions in excess of pension and other post-retirement expense when excluding our non-cash pension settlement loss of \$30 million.

Investing Activities

Cash flows used for investing activities, including discontinued operations, in 2020 amounted to \$202 million, a \$52 million decrease compared to cash flows used for investing activities of \$254 million in 2019.

The use of cash in 2020 was attributable to additions to property, plant and equipment of \$175 million and the acquisition of the Appvion Point of Sale Business in the second quarter of 2020 (\$30 million).

The use of cash in 2019 was attributable to additions to property, plant and equipment of \$255 million.

Our annual capital expenditures for 2021 should increase due mostly to our Kingsport mill conversion and are expected to be between \$310 million and \$330 million.

Financing Activities

Cash flows provided from financing activities, including discontinued operations, totaled \$35 million in 2020 compared to cash flows used for financing activities of \$237 million in 2019.

The primary source of cash flows provided from financing activities was from proceeds of the term loan in 2020 (\$300 million). This was partially offset by the decrease in borrowings under our credit facilities (revolver and receivables securitization) (\$135 million), the repurchase of our common stock (\$59 million), dividend payments (\$51 million) and a decrease in bank indebtedness (\$10 million).

The use of cash in 2019 was primarily the result of the repurchase of our common stock (\$219 million) and dividend payments (\$110 million). This was partially offset by the net increase of borrowings under our credit facilities (revolver and receivables securitization) (\$85 million).

Capital Resources

Net indebtedness, consisting of bank indebtedness and long-term debt, net of cash and cash equivalents, was \$788 million as of December 31, 2020 compared to \$886 million as of December 31, 2019.

Term Loan

On May 5, 2020, we entered into a \$300 million Term Loan Agreement that matures on May 5, 2025. We used borrowings under the Term Loan Agreement to repay other debt, to pay related fees and expenses. A mandatory repayment of \$6 million was made in 2020. For more information, refer to Item 8, Financial Statements and Supplemental Data, under Note 19 “Long-Term Debt”.

Revolving Credit Facility

We have an unsecured \$700 million revolving credit facility (the “Credit Agreement”) with certain domestic and foreign banks that matures on August 22, 2023.

Borrowings by the Company under the Credit Agreement are guaranteed by our significant domestic subsidiaries. Borrowings by certain foreign subsidiaries under the Credit Agreement are guaranteed by the Company, our significant domestic subsidiaries and certain of our significant foreign subsidiaries.

Borrowings under the Credit Agreement bear interest at LIBOR, EURIBOR, Canadian bankers' acceptance or prime rate, as applicable, plus a margin linked to our credit rating. In addition, we pay facility fees quarterly at rates dependent on our credit ratings. The Financial Conduct Authority in the United Kingdom plans to phase out LIBOR by the end of 2021. We do not anticipate a significant impact to our financial position from the planned phase out of LIBOR.

The Credit Agreement contains customary covenants and events of default for transactions of this type, including two financial covenants: (i) an interest coverage ratio, as defined in the Credit Agreement, that must be maintained at a level of not less than 3 to 1 and (ii) a leverage ratio, as defined in the Credit Agreement, that must be maintained at a level of not greater than 3.75 to 1 (or 4.00 to 1 upon the occurrence of certain qualifying material acquisitions). At December 31, 2020, we were in compliance with these financial covenants, and had no borrowings under the Credit Agreement (December 31, 2019– \$80 million). At December 31, 2020, our interest coverage ratio was 8.2 and our leverage ratio was 1.9. At December 31, 2020, we had \$54 million of outstanding letters of credit (December 31, 2019 – nil), leaving \$646 million unused and available under this facility (December 31, 2019 – \$620 million).

Receivables Securitization

We have a \$150 million receivables securitization facility that matures in November 2021.

At December 31, 2020, we had no borrowings under the receivables securitization facility, and had no outstanding letters of credit under the program (December 31, 2019 – \$55 million and \$53 million, respectively). The program contains certain termination events, which include, but are not limited to, matters related to receivable performance, certain defaults occurring under the Credit Agreement or our failure to repay or satisfy material obligations. At December 31, 2020, we had \$111 million unused and available under this facility.

Common Stock

On May 5, 2020, we suspended the distribution of our regular quarterly dividend and stock repurchase program in light of current uncertainty in the global markets. Our stock repurchase program resumed on February 11, 2021. Our Board of Directors will continue to evaluate our capital return program based upon customary considerations, including market conditions.

During 2020, we declared one quarterly dividend of \$0.455 per share, to holders of our common stock. Total dividends aggregating \$25 million were paid on April 15, 2020 to shareholders of record as of April 2, 2020.

During 2019, we declared one quarterly dividend of \$0.435 and three quarterly dividends of \$0.455 per share, to holders of our common stock. Dividends aggregating \$28 million, \$28 million, \$27 million and \$26 million were paid on April 15, 2019, July 16, 2019, October 15, 2019 and January 15, 2020, respectively, to shareholders of record as of April 2, 2019, July 2, 2019, October 2, 2019 and January 2, 2020, respectively.

GUARANTEES

Indemnifications

In the normal course of business, we offer indemnifications relating to the sale of our businesses and real estate. In general, these indemnifications may relate to claims from past business operations, the failure to abide by covenants and the breach of representations and warranties included in sales agreements. Typically, such representations and warranties relate to taxation, environmental, product and employee matters. The terms of these indemnification agreements are generally for an unlimited period of time. At December 31, 2020, we were unable to estimate the potential maximum liabilities for these types of indemnification guarantees as the amounts are contingent upon the outcome of future events, the nature and likelihood of which cannot be reasonably estimated at this time. Accordingly, no provision has been recorded. These indemnifications have not yielded significant expenses in the past.

Pension Plans

We have indemnified and held harmless the trustees of our pension funds, and the respective officers, directors, employees and agents of such trustees, from any and all costs and expenses arising out of the performance of their obligations under the relevant trust agreements, including in respect of their reliance on authorized instructions from us or for failing to act in the absence of authorized instructions. These indemnifications survive the termination of such agreements. At December 31, 2020, we have not recorded a liability associated with these indemnifications, as we do not expect to make any payments pertaining to these indemnifications.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

In the normal course of business, we enter into certain contractual obligations and commercial commitments. The following tables provide our obligations and commitments at December 31, 2020:

CONTRACT TYPE	2021	2022	2023	2024	2025	THEREAFTER	TOTAL
<i>(in millions of dollars)</i>							
Long-term debt (excluding interest)	12	312	12	12	246	\$ 500	\$ 1,094
Finance leases and other (including interest)	1	2	2	2	1	5	13
Operating leases	20	18	15	10	6	9	78
Long-term income taxes payable (1)	3	3	6	8	10	—	30
Total obligations	\$ 36	\$ 335	\$ 35	\$ 32	\$ 263	\$ 514	1,215

COMMITMENT TYPE	2021	2022	2023	2024	2025	THEREAFTER	TOTAL
<i>(in millions of dollars)</i>							
Other commercial commitments (2)	\$ 155	\$ 10	\$ 6	6	—	2	\$ 179

- (1) In connection with the U.S. Tax Reform, we have remaining liabilities of \$30 million in repatriation tax to pay through 2025. See Note 10 “Income Taxes” for additional information on the U.S. Tax Reform.
- (2) Includes commitments to purchase property, plant and equipment, roundwood, wood chips, gas and certain chemicals. Purchase orders in the normal course of business are excluded.

In addition, we expect to contribute a minimum total amount of \$13 million to the pension plans in 2021 and a minimum total amount of \$4 million in 2021 to the other post-retirement benefits plans.

For 2021 and the foreseeable future, we expect cash flows from operations and from our various sources of financing to be sufficient to meet our contractual obligations and commercial commitments.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to Item 8, Financial Statements and Supplementary Data under Note 2 “Recent Accounting Pronouncements”.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Our principal accounting policies are described in Item 8, Financial Statements and Supplementary Data, under Note 1 “Summary of Significant Accounting Policies”. Notes referenced in this section are included in Item 8, Financial Statements and Supplementary Data.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates, assumptions and choices amongst acceptable accounting methods that affect our reported results of operations and financial position. Critical accounting estimates pertain to matters that contain a significant level of management estimates about future events, encompass the most complex and subjective judgments and are subject to a fair degree of measurement uncertainty. On an ongoing basis, management reviews its estimates, including those related to environmental matters and asset retirement obligations, impairment and useful lives of long-lived assets, closure and restructuring costs, intangible assets impairment, pension and other post-retirement benefit plans, income taxes and contingencies related to legal claims. These critical accounting estimates and policies have been reviewed with the Audit Committee of our Board of Directors. We believe these accounting policies, and others as set forth in Note 1 “Summary of Significant Accounting Policies”, should be reviewed as they are essential to understanding our results of operations, cash flows and financial condition. Actual results could differ from those estimates.

Environmental Matters and Asset Retirement Obligations

We maintain provisions for estimated environmental costs when remedial efforts are probable and can be reasonably estimated. Environmental provisions relate mainly to air emissions, effluent treatment, silvicultural activities and site remediation (together referred to as “environmental matters”). The environmental cost estimates reflect assumptions and judgments as to probable nature, magnitude and timing of required investigation, remediation and monitoring activities, as well as contribution by other responsible parties. Additional information regarding environmental matters is available in Note 22 “Commitments and Contingencies”.

While we believe that we have determined the costs for environmental matters likely to be incurred, based on known information, our ongoing efforts to identify potential environmental concerns that may be associated with the properties may lead to future environmental investigations. These efforts may result in the determination of additional environmental costs and liabilities, which cannot be reasonably estimated at this time. In addition, environmental laws and regulations and interpretation by regulatory authorities could change which could result in significant changes to our estimates. For further details on “Climate change regulation” and other environmental matters refer to Note 22 “Commitments and Contingencies”.

Asset retirement obligations are mainly associated with landfill operation and closure, dredging of settling ponds and bark pile management. We recognize asset retirement obligations, at fair value, in the period in which we incur a legal obligation associated with the retirement of an asset. The fair value is based on the expected cash flow approach, in which multiple cash flow scenarios that reflect a range of possible outcomes are considered. Probabilities are applied to each of the cash flow scenarios to arrive at an expected cash flow. The estimated cash flows are then discounted using a credit adjusted risk-free interest rate in combination with business-specific and other relevant risks to discount the cash flow. The rates used vary between 4.7% and 12.0%.

Cash flow estimates incorporate assumptions that marketplace participants would use in their estimates of fair value, whenever that information is available without undue cost and effort. If unavailable, assumptions are based on internal experts, third-party engineers' studies and historical experience in remediation work. As at December 31, 2020, we had an asset retirement obligation provision of \$14 million for 12 locations (2019 – \$13 million).

As at December 31, 2020, we had a total provision of \$47 million for environmental matters and asset retirement obligations (2019 – \$35 million). Certain of these amounts have been discounted due to more certainty of the timing of expenditures using the credit adjusted risk-free interest rate for the corresponding period until the settlement date. The rates used vary, based on the prevailing rate at the moment of recognition of the liability and on its settlement period. Additional costs, not known or identified, could be incurred for remediation efforts. Based on policies and procedures in place to monitor environmental exposure, management believes that such additional remediation costs would not have a material adverse effect on our financial position, result of operations or cash flows.

Impairment of Property Plant and Equipment, Operating lease right-of-use assets and Definite-Lived Intangible Assets

Property, plant and equipment, operating lease right-of-use assets and definite-lived intangible assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that, at the lowest level of determinable cash flows, the carrying value of the assets may not be recoverable. Step I of the impairment test assesses if the carrying value of the assets exceeds their estimated undiscounted future cash flows in order to assess if the property, plant and equipment, operating lease right-of-use assets and definite-lived intangible assets are impaired. In the event the estimated undiscounted future cash flows are lower than the net book value of the assets, a Step II impairment test must be carried out to determine the impairment charge. In Step II, the assets are written down to their estimated fair values. Given that there is generally no readily available quoted value for our property, plant and equipment, operating lease right-of-use assets and definite-lived intangible assets, we determine fair value of our assets based on the present value of estimated future cash flows expected from their use and eventual disposition, and by using the liquidation or salvage value in the case of idled assets. The fair value estimate in Step II is based on the undiscounted cash flows used in Step I.

Estimates of undiscounted future cash flows used to test the recoverability of the property, plant and equipment, operating lease right-of use assets and definite-lived intangible assets includes key assumptions related to selling prices, inflation-adjusted cost projections, forecasted exchange rates (when applicable) and estimated useful life. Changes in our assumptions and estimates may affect our forecasts and may lead to an outcome where impairment charges would be required. In addition, actual results may vary from our forecasts, and such variations may be material and unfavorable, thereby triggering the need for future impairment tests where our conclusions may differ in reflection of prevailing market conditions.

Useful Lives

On a regular basis, we review the estimated useful lives of our property, plant and equipment and our definite-lived intangible assets. Assessing the reasonableness of the estimated useful lives of property, plant and equipment and definite-lived intangible assets requires judgment and is based on currently available information. Changes in circumstances such as technological advances, changes to our business strategy, changes to our capital strategy or changes in regulation can result in useful lives differing from our estimates. Revisions to the estimated useful lives of property, plant and equipment and definite-lived intangible assets constitute a change in accounting estimate and are dealt with prospectively by amending depreciation and amortization rates.

A change in the remaining estimated useful life of a group of assets, or their estimated net salvage value, will affect the depreciation or amortization rate used to depreciate or amortize the group of assets and thus affect depreciation or amortization expense as reported in our results of operations. In 2020, we recorded depreciation and amortization expense of \$223 million compared to \$231 million in 2019. At December 31, 2020, we had property, plant and equipment with a net book value of \$2,023 million (2019 – \$2,223 million) and definite-lived intangible assets, net of amortization, of \$19 million (2019 – \$20 million).

In 2020, we recognized \$136 million of accelerated depreciation, mostly related to our announced permanent closure of our uncoated freesheet manufacturing at Kingsport, Tennessee and Port Huron, Michigan mills, the remaining paper machine at the Ashdown, Arkansas mill and the converting center in Ridgefield, Tennessee.

In the third quarter of 2019, we announced the permanent closure of two paper machines. These closures took place at our Ashdown, Arkansas pulp and paper mill and our Port Huron, Michigan paper mill. As a result, we recognized \$32 million of accelerated depreciation in 2019.

Closure and Restructuring Costs

Closure and restructuring costs are recognized as liabilities in the period when they are incurred and are measured at their fair value. For such recognition to occur, management, with the appropriate level of authority, must have approved and committed to a firm plan

and appropriate communication to those affected must have occurred. These provisions may require an estimation of costs such as severance and termination benefits, pension and related curtailments, environmental remediation and may also include expenses related to demolition and outplacement. Actions taken may also require an evaluation of any remaining assets to determine required impairments, if any, and a review of estimated remaining useful lives which may lead to accelerated depreciation expense.

Estimates of cash flows and fair value relating to closures and restructuring require judgment. Closure and restructuring liabilities are based on management's best estimates of future events. Although we do not anticipate significant changes, actual costs may differ from these estimates due to subsequent business developments. As such, additional costs and further impairment charges may be required in future periods.

During 2020, we recorded \$136 million of accelerated depreciation under Impairment of long-lived assets on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss). Additionally, we recorded \$34 million of severance and termination costs, \$31 million of inventory obsolescence and \$34 million of other costs, under Closure and restructuring costs.

During 2019, we recorded \$32 million of accelerated depreciation under Impairment of long-lived assets and \$1 million of accelerated depreciation under Depreciation and amortization, on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss). Additionally, we recorded \$3 million of severance and termination costs, \$4 million of inventory obsolescence and \$2 million of other costs, under Closure and restructuring costs in relation to the paper machine closures. Concurrently, with the Ashdown paper machine closure and related workforce reduction, management negotiated a voluntary early retirement program to reduce costs and put the mill in a stronger cost position in the long-term. We additionally recorded \$13 million of severance and termination costs under Closure and restructuring costs.

Additional information can be found under Note 16 "Closure and Restructuring Costs and Impairment of Long-Lived Assets".

Indefinite-lived intangible assets impairment assessment

Indefinite-lived intangible assets consist of license rights (\$6 million) and water rights (\$4 million). We test indefinite-lived intangible assets at the asset level. Indefinite-lived intangible assets are not amortized and are evaluated at the beginning of the fourth quarter of every year or more frequently whenever indicators of potential impairment exist. In connection with the Company's annual impairment testing in the fourth quarter of 2020, we performed a qualitative assessment for each indefinite-lived intangible asset (license rights and water rights). The qualitative assessments performed in the fourth quarter of 2020 indicated that the indefinite-lived intangible assets had fair values that exceeded their carrying amounts.

Pension Plans and Other Post-Retirement Benefit Plans

We have several defined contribution plans and multiemployer plans. The pension expense under these plans is equal to our contribution. Defined contribution pension expense was \$39 million for the year ended December 31, 2020 (2019 – \$39 million).

We sponsor both contributory and non-contributory U.S. and non-U.S. defined benefit pension plans. We also sponsor a number of other post-retirement benefit plans for eligible U.S. and non-U.S. employees; the plans are unfunded and include life insurance programs and medical and dental benefits. In addition, we provide supplemental unfunded defined benefit pension plans and supplemental unfunded defined contribution pension plans to certain senior management employees.

We account for pensions and other post-retirement benefits in accordance with Compensation-Retirement Benefits Topic of the Financial Accounting Standards Board-Accounting Standards Committee which requires employers to recognize the overfunded or underfunded status of defined benefit pension plans as an asset or liability in its Consolidated Balance Sheets. Pension and other post-retirement benefit charges require assumptions in order to estimate the projected and accumulated benefit obligations. These assumptions require considerable management judgment and include:

- Expected long-term rate of return on plan assets – used to estimate the growth and expected return on assets
- Discount rate – used to determine interest costs and the net present value of our obligations
- Rate of compensation increase – used to calculate the impact of future increases on our obligations
- Health care cost trends – used to calculate the impact of future health care costs on our obligations
- Employee related factors, such as mortality rates, turnover, retirement age and disabilities – used to determine the extent of our obligations

Changes in these assumptions result in actuarial gains or losses, which are amortized over the expected average remaining service life of the active employee group covered by the plans, only to the extent that the unrecognized net actuarial gains and losses are in excess

of 10% of the greater of the projected benefit obligation and the market value of assets, over the average remaining service period of approximately ten years of the active employee group covered by the pension plans, and 12 years of the active employee group covered by the other post-retirement benefits plans.

An expected rate of return on plan assets of 4.6% was considered appropriate by management for the determination of pension expense for 2020. Effective January 1, 2021, we will use 4.4% as the expected return on plan assets, which reflects the current view of long-term investment returns. The overall expected long-term rate of return on plan assets is based on management's best estimate of the long-term returns of the major asset classes (cash and cash equivalents, equities and bonds) weighted by the target allocation of assets at the measurement date, net of expenses. This rate includes an equity risk premium over government bond returns for equity investments and a value-added premium for the contribution to returns from active management. The sources used to determine management's best estimate of long-term returns are numerous and include country specific bond yields, which may be derived from the market using local bond indices or by analysis of the local bond market, and country-specific inflation and investment market expectations derived from market data and analysts' or governments' expectations, as applicable.

We set our discount rate assumption annually to reflect the rates available on high-quality, fixed income debt instruments, with a duration that is expected to match the timing and amount of expected benefit payments. High-quality debt instruments are corporate bonds with a rating of AA or better. The discount rates at December 31, 2020 for pension plans were estimated at 2.5% for the projected benefit obligation and 3.0% for the net periodic benefit cost for 2020 and for post-retirement benefit plans were estimated at 2.5% for the projected benefit obligation and 3.0% for the net periodic benefit cost for 2020.

We used a full yield curve approach to estimate the current service and interest cost components of net periodic benefit cost for Canadian pension plans and U.S. funded pension plans. The estimate of these components is made by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. We used this approach to provide a more precise measurement of current service and interest cost components by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates.

The rate of compensation increase is another significant assumption in the actuarial model for pension (set at 2.7% for the projected benefit obligation and 2.8% for the net periodic benefit cost) and for post-retirement benefit plans (set at 2.8% for the projected benefit obligation and 2.7% for the net periodic benefit cost) and is determined based upon our long-term plans for such increases.

For employee related factors, mortality rate tables tailored to our industry were used and the other factors reflect our historical experience and management's best estimate regarding future expectations.

For measurement purposes, a 3.9% weighted average annual rate of increase in the per capita cost of covered health care benefits was assumed for 2020.

The following table provides a sensitivity analysis of the key weighted average economic assumptions used in measuring the projected pension benefit obligation, the accrued other post-retirement benefit obligation and related net periodic benefit cost for 2020. The sensitivity analysis should be used with caution as it is hypothetical and changes in each key assumption may not be linear. The sensitivities in each key variable have been calculated independently of each other.

PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS	Pension		Other Post-Retirement Benefit	
	Projected Benefit Obligation	Net Periodic Benefit Cost	Projected Benefit Obligation	Net Periodic Benefit Cost
<i>(In millions of dollars)</i>				
Expected rate of return on assets				
Impact of:				
1% increase	N/A	(14)	N/A	N/A
1% decrease	N/A	14	N/A	N/A
Discount rate				
Impact of:				
1% increase	(189)	(7)	(8)	-
1% decrease	235	16	10	-

Our pension plan funding policy is to contribute annually the amount required to provide for benefits earned in the year and to fund solvency deficiencies, funding shortfalls and past service obligations over periods not exceeding those permitted by the applicable regulatory authorities. Past service obligations primarily arise from improvements to plan benefits. The other post-retirement benefit plans are not funded and contributions are made annually to cover benefit payments.

We expect to contribute a minimum total amount of \$13 million in 2021 compared to \$15 million in 2020 (2019 – \$17 million) to the pension plans. We expect to contribute a minimum total amount of \$4 million in 2021 compared to \$4 million in 2020 to the other post-retirement benefit plans (2019 – \$4 million).

Benefit obligations and fair values of plan assets as of December 31, 2020 for our pension and post-retirement plans were as follows:

	December 31, 2020		December 31, 2019	
	Pension plans	Other post-retirement benefit plans	Pension plans	Other post-retirement benefit plans
	\$	\$	\$	\$
Projected benefit obligation at end of year	(1,566)	(67)	(1,425)	(63)
Fair value of assets at end of year	1,594	—	1,465	—
Funded status	28	(67)	40	(63)

For additional details on our pension plans and other post-retirement benefit plans, refer to Note 7 “Pension Plans and Other Post-Retirement Benefit Plans”.

Income Taxes

We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of the assets and liabilities. The change in the net deferred tax asset or liability is included in earnings. Deferred tax assets and liabilities are measured using enacted tax rates and laws expected to apply in the years in which assets and liabilities are expected to be recovered or settled. Deferred tax assets and liabilities are classified as non-current items on the Consolidated Balance Sheets. For these years, a projection of taxable income and an assumption of the ultimate recovery or settlement period for temporary differences are required. The projection of future taxable income is based on management’s best estimate and may vary from actual taxable income.

We assess the need to establish a valuation allowance for deferred tax assets and, if it is deemed more likely than not that our deferred tax assets will not be realized based on these taxable income projections, a valuation allowance is recorded. In general, “realization” refers to the incremental benefit achieved through the reduction in future taxes payable or an increase in future taxes refundable from the deferred tax assets. Evaluating the need for an amount of a valuation allowance for deferred tax assets often requires significant judgment. All available evidence, both positive and negative, should be considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. In our evaluation process, we give the most weight to historical income or losses. After evaluating all available positive and negative evidence, although realization is not assured, we determined that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets, with the exception of certain state credits and losses for which a valuation allowance of \$13 million exists at December 31, 2020, the tax basis difference in our assets held for sale (U.S. and foreign) for which a valuation allowance of \$44 million exists at December 31, 2020, and certain foreign loss carryforwards for which a valuation allowance of \$7 million exists at December 31, 2020. Of this amount, \$47 million unfavorably impacted tax expense and the effective tax rate for 2020 (2019 –\$5 million).

Our deferred tax assets are mainly composed of temporary differences related to various accruals, accounting provisions, pension and post-retirement benefit liabilities, net operating loss carryforwards, and available tax credits. Our deferred tax liabilities are mainly composed of temporary differences pertaining to property, plant and equipment, intangible assets, leases and other items. Estimating the ultimate settlement period requires judgment. The reversal of timing differences is expected at enacted tax rates, which could change due to changes in income tax laws or the introduction of tax changes through the presentation of annual budgets by different governments. As a result, a change in the timing and the income tax rate at which the components will reverse could materially affect deferred tax expense in our future results of operations.

In addition, U.S. and foreign tax rules and regulations are subject to interpretation and require judgment that may be challenged by taxation authorities. To the best of our knowledge, we have adequately provided for our future tax consequences based upon current facts and circumstances and current tax law. In accordance with Income Taxes Topic of FASB ASC 740, we evaluate new tax positions that result in a tax benefit to us and determine the amount of tax benefits that can be recognized. The remaining unrecognized tax benefits are evaluated on a quarterly basis to determine if changes in recognition or classification are necessary. Significant changes in the amount of unrecognized tax benefits expected within the next 12 months are disclosed quarterly. Future

recognition of unrecognized tax benefits would impact the effective tax rate in the period the benefits are recognized. At December 31, 2020, we had gross unrecognized tax benefits of approximately \$23 million (2019 – \$28 million). These amounts represent the gross amount of exposure in individual jurisdictions and do not reflect any additional benefits expected to be realized if such positions were sustained, such as federal deduction that could be realized if an unrecognized state deduction was not sustained. As of December 31, 2020, we believe it is reasonably possible that up to \$4 million of our unrecognized tax benefits may be recognized in 2021, which could impact the effective tax rate. However, the amount and timing of the recognition of these benefits is subject to some uncertainty. In addition, a number of countries are actively pursuing changes to their tax laws applicable to corporation multinationals, such as the U.S. Tax Reform, enacted in 2017. Finally, foreign governments may enact tax laws in response to the U.S. Tax Reform that could result in further changes to global taxation and materially impact our financial results.

We operate in multiple jurisdictions with complex tax policy and regulatory environments. U.S. and foreign tax rules and regulations are subject to interpretation and require judgment that may be challenged by taxation authorities.

Tax audits by their nature are often complex and can require several years to resolve. We have a number of audits in process in various jurisdictions. Although the resolution of these tax positions is uncertain, based on currently available information, we believe that we have adequately provided for our future tax consequences based upon current facts and circumstances and current tax law, and we believe that the ultimate outcomes will not have a material adverse effect on our financial position, results of operations or cash flows. For further details refer to Note 10 “Income Taxes”.

Contingencies related to legal claims

As discussed in Item 1A Risk Factors, under the risk “Failure to comply with applicable laws and regulations could have a material adverse effect on our business, financial results or condition” and in Note 22 “Commitments and Contingencies”, we are subject to various legal proceedings and claims that arise in the ordinary course of business. We record a liability when it is probable that a loss has been incurred, and the amount is reasonably estimable. The most likely cost to be incurred is accrued based on an evaluation of the then available facts with respect to each matter. When no amount within a range of estimates is more likely, the minimum is accrued. There is significant judgment required in both the probability determination and as to whether an exposure can be reasonably estimated. For further details on “Contingencies” and legal claims refer to Note 22 “Commitments and Contingencies”.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our operating income can be impacted by the following sensitivities:

SENSITIVITY ANALYSIS

(In millions of dollars, unless otherwise noted)

Each \$10/unit change in the selling price of the following products¹:	
Papers	
Business Papers	\$ 10
Commercial Print & Publishing Papers	8
Specialty & Packaging Papers	4
Pulp - net position	
Softwood	\$ 13
Fluff	8
Hardwood	-
Foreign exchange	
(US \$0.01 change in relative value to the Canadian dollar before hedging)	11
Energy ²	
Natural gas: \$0.25/MMBtu change in price before hedging	6

¹ Based on estimated 2021 capacity (ST or ADMT).

² Based on estimated 2021 consumption levels. The allocation between energy sources may vary during the year in order to take advantage of market conditions.

Note that we may, from time to time, hedge part of our foreign exchange, and energy positions, which may therefore impact the above sensitivities.

In the normal course of business, we are exposed to certain financial risks. We do not use derivative instruments for speculative purposes; although all derivative instruments purchased to minimize risk may not qualify for hedge accounting.

CREDIT RISK

We are exposed to credit risk on accounts receivables from our customers. In order to reduce this risk, we review new customers' credit history before granting credit and conduct regular reviews of existing customers' credit performance. As of December 31, 2020, two of our customers located in the U.S. represented 15% or \$58 million, and 12% or \$46 million, respectively, of our receivables (December 31, 2019— two customers located in the U.S. represented 14% or \$66 million and 13% or \$65 million, respectively).

We are exposed to credit risk in the event of non-performance by counterparties to our financial instruments. We attempt to minimize this exposure by entering into contracts with counterparties that are believed to be of high credit quality. Collateral or other security to support financial instruments subject to credit risk is usually not obtained. The credit standing of counterparties is regularly monitored.

INTEREST RATE RISK

We are exposed to interest rate risk arising from fluctuations in interest rates on our cash and cash equivalents, bank indebtedness, revolving credit facility, securitization, term loan and long-term debt. Our objective in managing exposure to interest rate changes is to minimize the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. We may manage this interest rate exposure through the use of derivative instruments such as interest rate swap contracts, whereby we agree to exchange the difference between fixed and variable interest amounts calculated by reference to an agreed upon notional principal amount.

The Financial Conduct Authority in the United Kingdom plans to phase out LIBOR by the end of 2021. We do not anticipate a significant impact to our financial position from the planned phase out of LIBOR.

COST RISK

Cash flow hedges

We are exposed to price volatility for raw materials and energy used in our manufacturing process. We manage our exposure to cost risk primarily through the use of supplier contracts. We purchase natural gas at the prevailing market price at the time of delivery. To reduce the impact on cash flow and earnings due to pricing volatility, we may utilize derivatives to fix the price of forecasted natural gas purchases. The changes in the fair value on qualifying instruments are included in Accumulated other comprehensive loss to the extent effective, and reclassified into Cost of sales in the period during which the hedged transaction affects earnings. Current contracts are used to hedge a portion of forecasted purchases over the next 36 months.

FOREIGN CURRENCY RISK

Cash flow hedges

We have manufacturing operations in the U.S. and Canada. As a result, we are exposed to movements in foreign currency exchange rates in Canada. Moreover, certain assets and liabilities are denominated in Canadian dollars and are exposed to foreign currency movements. Accordingly, our earnings are affected by increases or decreases in the value of the Canadian dollar. Our risk management policy allows us to hedge a significant portion of the exposure to fluctuations in foreign currency exchange rates for periods up to three years. We may use derivative financial instruments (currency options and foreign exchange forward contracts) to mitigate our exposure to fluctuations in foreign currency exchange rates.

Derivatives are used to hedge forecasted purchases in Canadian dollars by our Canadian subsidiary over the next 24 months. Such derivatives are designated as cash flow hedges. The changes in the fair value on qualifying instruments are included in Accumulated other comprehensive loss to the extent effective, and reclassified into Sales or Cost of sales in the period during which the hedged transaction affects earnings.

Management's Reports to Shareholders of Domtar Corporation

Management's Report on Financial Statements and Practices

The accompanying Consolidated Financial Statements of Domtar Corporation and its subsidiaries (the "Company") were prepared by management. The statements were prepared in accordance with accounting principles generally accepted in the United States of America and include amounts that are based on management's best judgments and estimates. Management is responsible for the completeness, accuracy and objectivity of the financial statements. The other financial information included in the annual report is consistent with that in the financial statements.

Management has established and maintains a system of internal accounting and other controls for the Company and its subsidiaries. This system and its established accounting procedures and related controls are designed to provide reasonable assurance that assets are safeguarded, that the books and records properly reflect all transactions, that policies and procedures are implemented by qualified personnel, and that published financial statements are properly prepared and fairly presented. The Company's system of internal control is supported by written policies and procedures, contains self-monitoring mechanisms, and is audited by the internal audit function. Appropriate actions are taken by management to correct deficiencies as they are identified.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management has evaluated the effectiveness of internal control over financial reporting, using the criteria established in 2013 *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on the assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2020, based on criteria in *Internal Control – Integrated Framework* issued in 2013 by the COSO.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2020 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Domtar Corporation:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Domtar Corporation and its subsidiaries (the “Company”) as of December 31, 2020 and 2019, and the related consolidated statements of earnings (loss) and comprehensive income (loss), of shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2020, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2020 appearing after the list of exhibits under Item 15(a)(3) (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Indefinite Lived Intangible Assets Impairment Assessment - Personal Care Segment

As described in Notes 1 and 3 to the consolidated financial statements, the Company classified the Personal Care business as a disposal group held for sale in the fourth quarter of 2020. As of December 31, 2020, net indefinite lived intangible assets in the disposal group held for sale totaled approximately \$290 million. Management measured the indefinite lived intangible assets included in the disposal group held for sale at the lower of the carrying value or the fair value less any costs to sell. Management performed quantitative impairment tests for each Personal Care indefinite-lived intangible asset, which included comparing the fair value of the indefinite-lived intangible asset to its carrying amount. Fair value of the indefinite lived intangible assets is derived using an income approach that is a relief from royalty model. Key estimates supporting the cash flow projections used in the estimation of fair value include, but are not limited to, management's assessment of industry and market conditions, as well as its estimates of revenue growth rates, royalty rates, tax rates and discount rates.

The principal considerations for our determination that performing procedures relating to the indefinite-lived intangible assets impairment assessment, specifically for the Personal Care segment, is a critical audit matter are (i) the significant judgment by management when developing the fair value measurement of the indefinite lived intangible assets included in the disposal group held for sale; (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating management's significant assumptions related to revenue growth rates and royalty rates; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's impairment assessment of the Personal Care indefinite-lived intangible assets included in the disposal group held for sale, including controls over the development of assumptions relating to cash flow projections, revenue growth rates, royalty rates, tax rates, and discount rates utilized in the valuation of the intangible assets. These procedures also included, among others (i) testing management's process for determining the fair value measurements of the Personal Care segment indefinite-lived intangible assets included in the disposal group; (ii) evaluating the appropriateness of the income approach based on a relief from royalty model; (iii) testing the completeness and accuracy of the underlying data used in the model; and (iv) evaluating the reasonableness of significant assumptions used by management related to revenue growth rates and royalty rates. Evaluating management's assumptions related to revenue growth rates and royalty rates involved evaluating whether the assumptions used were reasonable considering (i) the current and past performance of the segment; and (ii) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in evaluating the appropriateness of the Company's income approach based on the relief from royalty model, and evaluating the appropriateness of the royalty rates assumption.

/s/ PricewaterhouseCoopers LLP

Charlotte, North Carolina
March 1, 2021

We have served as the Company's auditor since 2007.

DOMTAR CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	Year ended December 31, 2020 \$	Year ended December 31, 2019 \$	Year ended December 31, 2018 \$
Sales	3,652	4,369	4,565
Operating expenses			
Cost of sales, excluding depreciation and amortization	3,125	3,610	3,638
Depreciation and amortization	223	231	241
Selling, general and administrative	253	291	292
Impairment of long-lived assets (NOTE 16)	136	32	—
Closure and restructuring costs (NOTE 16)	99	22	—
Other operating (income) loss, net (NOTE 8)	(7)	4	(1)
	<u>3,829</u>	<u>4,190</u>	<u>4,170</u>
Operating (loss) income	(177)	179	395
Interest expense, net (NOTE 9)	58	52	62
Non-service components of net periodic benefit cost (NOTE 7)	(17)	23	(18)
(Loss) earnings before income taxes and equity loss	(218)	104	351
Income tax (benefit) expense (NOTE 10)	(76)	17	68
Equity loss, net of taxes	3	2	2
(Loss) earnings from continuing operations	(145)	85	281
Earnings (loss) from discontinued operations, net of taxes (NOTE 3)	18	(1)	2
Net (loss) earnings	(127)	84	283
Per common share (in dollars) (NOTE 6)			
Basic net (loss) earnings			
(Loss) earnings from continuing operations	(2.62)	1.39	4.47
Earnings (loss) from discontinued operations	0.33	(0.02)	0.03
Basic net (loss) earnings	(2.29)	1.37	4.50
Diluted net (loss) earnings			
(Loss) earnings from continuing operations	(2.62)	1.39	4.45
Earnings (loss) from discontinued operations	0.33	(0.02)	0.03
Diluted net (loss) earnings	(2.29)	1.37	4.48
Weighted average number of common shares outstanding (millions)			
Basic	55.4	61.2	62.9
Diluted	55.4	61.4	63.1
Cash dividends per common share	0.91	1.78	1.72
Net (loss) earnings	(127)	84	283
Other comprehensive income (loss):			
Net derivative gains (losses) on cash flow hedges:			
Net gains (losses) arising during the period, net of tax \$(9) (2019 – \$(3); 2018 – \$10)	27	11	(30)
Less: Reclassification adjustment for losses (gains) included in net (loss) earnings, net of tax of \$(4) (2019 – \$(3); 2018 – \$1)	12	8	(2)
Foreign currency translation adjustments	63	21	(91)
Change in unrecognized (losses) gains and prior service cost related to pension and post-retirement benefit plans, net of tax of \$4 (2019 – \$(13); 2018 – \$3)	(13)	34	(8)
Other comprehensive income (loss)	89	74	(131)
Comprehensive (loss) income	(38)	158	152

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

DOMTAR CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	At	
	December 31, 2020	December 31, 2019
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	309	61
Receivables, less allowances of \$6 and \$4	380	482
Inventories (NOTE 11)	630	663
Prepaid expenses	50	29
Income and other taxes receivable	54	56
Assets held for sale (NOTE 3)	1,133	227
Total current assets	2,556	1,518
Property, plant and equipment, net (NOTE 12)	2,023	2,223
Operating lease right-of-use assets (NOTE 13)	59	58
Intangible assets, net (NOTE 14)	29	30
Other assets (NOTE 15)	189	163
Non-current assets held for sale (NOTE 3)	—	911
Total assets	4,856	4,903
Liabilities and shareholders' equity		
Current liabilities		
Bank indebtedness	—	9
Trade and other payables (NOTE 17)	484	580
Income and other taxes payable	15	15
Operating lease liabilities due within one year (NOTE 13)	20	18
Long-term debt due within one year (NOTE 19)	13	1
Liabilities held for sale (NOTE 3)	295	143
Total current liabilities	827	766
Long-term debt (NOTE 19)	1,084	937
Operating lease liabilities (NOTE 13)	50	40
Deferred income taxes and other (NOTE 10)	321	360
Other liabilities and deferred credits (NOTE 20)	314	269
Long-term liabilities held for sale (NOTE 3)	—	155
Commitments and contingencies (NOTE 22)		
Shareholders' equity (NOTE 21)		
Common stock \$0.01 par value; authorized 2,000,000,000 shares; issued 65,001,104 and 65,001,104 shares	1	1
Treasury stock \$0.01 par value; 9,806,566 and 8,120,194 shares	—	—
Additional paid-in capital	1,717	1,770
Retained earnings	846	998
Accumulated other comprehensive loss	(304)	(393)
Total shareholders' equity	2,260	2,376
Total liabilities and shareholders' equity	4,856	4,903

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

DOMTAR CORPORATION
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

	Issued and outstanding common shares (millions of shares)	Common stock, at par	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
	\$	\$	\$	\$	\$	\$
Balance at December 31, 2017	62.7	1	1,969	849	(336)	2,483
Stock-based compensation, net of tax	0.2	—	12	—	—	12
Net earnings	—	—	—	283	—	283
Net derivative losses on cash flow hedges:						
Net losses arising during the period, net of tax of \$10	—	—	—	—	(30)	(30)
Less: Reclassification adjustment for gains included in net earnings, net of tax of \$1	—	—	—	—	(2)	(2)
Foreign currency translation adjustments	—	—	—	—	(91)	(91)
Change in unrecognized losses and prior service cost related to pension and post-retirement benefit plans, net of tax of \$3	—	—	—	—	(8)	(8)
Cash dividends declared	—	—	—	(109)	—	(109)
Balance at December 31, 2018	62.9	1	1,981	1,023	(467)	2,538
Stock-based compensation, net of tax	0.2	—	8	—	—	8
Net earnings	—	—	—	84	—	84
Net derivative gains on cash flow hedges:						
Net gains arising during the period, net of tax of \$(3)	—	—	—	—	11	11
Less: Reclassification adjustment for losses included in net earnings, net of tax of \$(3)	—	—	—	—	8	8
Foreign currency translation adjustments	—	—	—	—	21	21
Change in unrecognized gains and prior service cost related to pension and post-retirement benefit plans, net of tax of \$(13)	—	—	—	—	34	34
Stock repurchase	(6.2)	—	(219)	—	—	(219)
Cash dividends declared	—	—	—	(109)	—	(109)
Balance at December 31, 2019	56.9	1	1,770	998	(393)	2,376
Stock-based compensation, net of tax	0.1	—	6	—	—	6
Net loss	—	—	—	(127)	—	(127)
Net derivative gains on cash flow hedges:						
Net gains arising during the period, net of tax of \$(9)	—	—	—	—	27	27
Less: Reclassification adjustment for losses included in net loss, net of tax of \$(4)	—	—	—	—	12	12
Foreign currency translation adjustments	—	—	—	—	63	63
Change in unrecognized losses and prior service cost related to pension and post-retirement benefit plans, net of tax of \$4	—	—	—	—	(13)	(13)
Stock repurchase	(1.8)	—	(59)	—	—	(59)
Cash dividends declared	—	—	—	(25)	—	(25)
Balance at December 31, 2020	<u>55.2</u>	<u>1</u>	<u>1,717</u>	<u>846</u>	<u>(304)</u>	<u>2,260</u>

The accompanying notes are an integral part of the consolidated financial statements

DOMTAR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN MILLIONS OF DOLLARS)

	Year ended December 31, 2020 \$	Year ended December 31, 2019 \$	Year ended December 31, 2018 \$
Operating activities			
Net (loss) earnings	(127)	84	283
Adjustments to reconcile net (loss) earnings to cash flows from operating activities			
Depreciation and amortization	283	293	308
Deferred income taxes and tax uncertainties (NOTE 10)	(45)	(16)	13
Impairment of long-lived assets (NOTE 16)	137	58	7
Impairment of inventory (NOTE 16)	31	6	4
Net gains on disposals of property, plant and equipment	(1)	—	(4)
Loss on classification as held for sale (NOTE 3)	45	—	—
Stock-based compensation expense	8	9	8
Equity loss, net	3	2	2
Other	4	—	(1)
Changes in assets and liabilities, excluding the effect of acquisition of business			
Receivables	99	96	18
Inventories	7	(22)	(28)
Prepaid expenses	11	2	2
Trade and other payables	(57)	(67)	24
Income and other taxes	13	(43)	(32)
Difference between employer pension and other post-retirement contributions and pension and other post-retirement expense	(4)	29	(46)
Other assets and other liabilities	4	11	(4)
Cash flows from operating activities	<u>411</u>	<u>442</u>	<u>554</u>
Investing activities			
Additions to property, plant and equipment	(175)	(255)	(195)
Proceeds from disposals of property, plant and equipment	3	1	5
Acquisition of business, net of cash acquired (NOTE 4)	(30)	—	—
Other	—	—	(6)
Cash flows used for investing activities	<u>(202)</u>	<u>(254)</u>	<u>(196)</u>
Financing activities			
Dividend payments	(51)	(110)	(108)
Stock repurchase	(59)	(219)	—
Net change in bank indebtedness	(10)	9	—
Change in revolving credit facility	(80)	80	—
Proceeds from receivables securitization facility	25	205	85
Repayments of receivables securitization facility	(80)	(200)	(60)
Issuance of long-term debt	300	—	—
Repayments of long-term debt	(7)	(1)	(301)
Other	(3)	(1)	2
Cash flows provided from (used for) financing activities	<u>35</u>	<u>(237)</u>	<u>(382)</u>
Net increase (decrease) in cash and cash equivalents	244	(49)	(24)
Impact of foreign exchange on cash	4	(1)	(4)
Cash and cash equivalents at beginning of year	61	111	139
Cash and cash equivalents at end of year	<u>309</u>	<u>61</u>	<u>111</u>
Supplemental cash flow information			
Net cash payments (refund) for:			
Interest	52	46	57
Income taxes	(22)	59	71

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

DOMTAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020
(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

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DOMTAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020
(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 1.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Domtar designs, manufactures, markets and distributes a wide variety of fiber-based products including communication papers, specialty and packaging papers and components of absorbent hygiene products. The foundation of its business is a network of wood fiber converting assets that produce paper grade, fluff and specialty pulp. The majority of this pulp production is consumed internally to manufacture paper with the balance sold as market pulp. Domtar is the largest integrated marketer of uncoated freesheet paper in North America serving a variety of customers, including merchants, retail outlets, stationers, printers, publishers, converters and end-users.

BASIS OF PRESENTATION

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the year, the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. On an ongoing basis, management reviews the estimates and assumptions, including but not limited to those related to environmental matters and asset retirement obligations, impairment and useful lives of long-lived assets, closure and restructuring costs, pension and other post-retirement benefit plans, income taxes, business combinations and contingencies, based on currently available information. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Domtar and its controlled subsidiaries. Intercompany transactions have been eliminated on consolidation. The equity method of accounting is used for investments in affiliates over which the Company has significant influence but does not have effective control.

DISCONTINUED OPERATIONS

The results of operations for the Personal Care business unit (disposal group) have been classified as discontinued operations for all periods presented in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss) as the disposal group met the criteria to be classified as held for sale in the fourth quarter and the disposal of the business unit represents a strategic shift that will have a major effect on the Company's operations and financial results. The after-tax results of operations of the discontinued operations (including the loss recognized on classification as held for sale) are reported as a separate component in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss) for current and all prior periods presented. In addition, the related assets and liabilities of the disposal group have been classified as held for sale in the Consolidated Balance Sheets at December 31, 2020 and 2019.

TRANSLATION OF FOREIGN CURRENCIES

The Company determines its international subsidiaries' functional currency by reviewing the currencies in which their respective operating activities occur. The Company translates assets and liabilities of its non-U.S. dollar functional currency subsidiaries into U.S. dollars using the rate in effect at the balance sheet date and revenues and expenses are translated at the average exchange rates during the year. Foreign currency translation gains and losses are included in Shareholders' equity as a component of Accumulated other comprehensive loss in the accompanying Consolidated Balance Sheets.

Monetary assets and liabilities denominated in a currency that is different from a reporting entity's functional currency must first be remeasured from the applicable currency to the legal entity's functional currency. The effect of this remeasurement process is recognized in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss) and is partially offset by the Company's hedging program (refer to Note 23 "Derivatives and hedging activities and fair value measurement").

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(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

The Company's revenue is generated from the sale of finished goods to customers. Revenue is recognized at a single point in time when the performance obligation is satisfied which occurs when the control over the goods is transferred to customers. For shipping and handling activities performed after customers obtain control of the goods, the Company elected to account for these activities as fulfillment activities rather than assessing such activities as separate performance obligations. Accordingly, the sale of goods to customers represents a single performance obligation to which the entire transaction price is allocated.

The point in time when the control of goods is transferred to customers is largely dependent on delivery terms. Revenue is recorded at the time of shipment for delivery terms designated free on board ("f.o.b.") shipping point. For sales transactions designated f.o.b. destination, revenue is recorded when the product is delivered to the customer's delivery site.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for goods transferred to customers. Revenue is recognized net of variable consideration in the form of rebates, discounts and other commercial incentives extended to customers. Variable consideration is recognized using the most likely amounts which are based on an analysis of historical experience and current period expectations. The Company includes estimated amounts of variable consideration in revenue to the extent that it is probable that there will not be a significant reversal of recognized revenue when the uncertainty related to that variable consideration is resolved.

For all the Company's contracts, customer payments are due in less than one year. Accordingly, the Company does not adjust the amount of revenue recognized for the effects of a significant financing component.

Sales taxes, and other similar taxes, collected from customers are excluded from revenue.

SHIPPING AND HANDLING COSTS

The Company classifies shipping and handling costs as a component of Cost of sales in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss).

CLOSURE AND RESTRUCTURING COSTS

Closure and restructuring costs are recognized as liabilities in the period when they are incurred and are measured at their fair value. For such recognition to occur, management, with the appropriate level of authority, must have approved and committed to a firm plan and appropriate communication to those affected must have occurred. These provisions may require an estimation of costs such as severance and termination benefits, pension and related curtailments, environmental remediation and may also include expenses related to demolition and outplacement. Actions taken may also require an evaluation of any remaining assets to determine required impairments, if any, and a review of estimated remaining useful lives which may lead to accelerated depreciation expense.

Estimates of cash flows and fair value relating to closures and restructurings require judgment. Closure and restructuring liabilities are based on management's best estimates of future events. Although the Company does not anticipate significant changes, the actual costs may differ from these estimates due to subsequent developments such as the results of environmental studies, the ability to find a buyer for assets set to be dismantled and demolished and other business developments. As such, additional costs and further working capital adjustments may be required in future periods.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

Domtar uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of the assets and liabilities. The Company records its worldwide tax provision based on the respective tax rules and regulations for the jurisdictions in which it operates. The change in the net deferred tax asset or liability is included in Income tax expense (benefit) or in Other comprehensive income (loss) in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss). Deferred tax assets and liabilities are measured using enacted tax rates and laws expected to apply in the years in which the assets and liabilities are expected to be recovered or settled. Uncertain tax positions are recorded based upon the Company's evaluation of whether it is "more likely than not" (a probability level of more than 50%) that, based upon its technical merits, the tax position will be sustained upon examination by the taxing authorities. The Company establishes a valuation allowance for deferred tax assets when it is more likely than not that they will not be realized. In general, "realization" refers to the incremental benefit achieved through the reduction in future taxes payable or an increase in future taxes refundable from the deferred tax assets. Deferred tax assets and liabilities are classified as non-current items on the Consolidated Balance Sheets.

The Company recognizes interest and penalties related to income tax matters as a component of Income tax expense (benefit) in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss).

If and when incurred, the Company accounts for any taxes associated with Global Intangible Low-Taxed Income ("GILTI") as a period cost.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and short-term investments with original maturities of less than three months and are presented at cost which approximates fair value.

RECEIVABLES AND ALLOWANCES FOR CREDIT LOSSES

We establish allowances for credit losses on receivables. The adequacy of these allowances is assessed quarterly through consideration of factors including, but not limited to, customer credit ratings, bankruptcy filings, published or estimated credit default rates, age of the receivable, expected loss rates and collateral exposures. We assign internal credit ratings for all customers and determine the creditworthiness of each customer based upon publicly available information and information obtained directly from our customers. Our rating categories are comparable to those used by major credit rating agencies. The securitization of receivables is accounted for as secured borrowings. Accordingly, financing expenses related to the securitization of receivables are recognized in earnings as a component of Interest expense, net in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss).

INVENTORIES

Inventories are stated at the lower of cost or net realizable value. Cost includes labor, materials and production overhead. The last-in, first-out ("LIFO") method is used to account for certain domestic raw materials, in process and finished goods inventories. LIFO inventories were \$220 million and \$242 million at December 31, 2020 and 2019, respectively. The balance of domestic raw material inventories, all materials and supplies inventories and all foreign inventories are recorded at either the first-in, first-out ("FIFO") or average cost methods. Had the inventories for which the LIFO method is used been valued under the FIFO method, the amounts at which product inventories are stated would have been \$52 million and \$69 million greater at December 31, 2020 and 2019, respectively.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation including asset impairments. Costs for repair and maintenance activities are expensed as incurred under the direct expense method of accounting. Interest costs are capitalized for significant capital projects. For timberlands, the amortization is calculated using the unit of production method. For all other assets, depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Buildings and improvements are depreciated over periods of 10 to 40 years and machinery and equipment over periods of 3 to 20 years. No depreciation is recorded on assets under construction.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the assets may not be recoverable, by comparing the net book value of the asset group to their estimated undiscounted future cash flows expected from their use and eventual disposition. Impaired assets are recorded at estimated fair value, determined principally by using the present value of estimated future cash flows expected from their use and eventual disposition.

LEASES

At inception of an arrangement, the Company determines whether the arrangement contains a lease. A lease conveys the right to control the use of identified property, plant, or equipment (asset) for a period of time in exchange for consideration. Control over the use of the identified asset means that the Company has both the right to obtain substantially all of the economic benefits from the use of the asset and the right to direct the use of the asset.

For each lease arrangement that has an original lease term of more than 12 months, a right-of-use asset and a lease liability are recorded in the Consolidated Balance Sheets. The right-of-use asset represents the Company's right to use an underlying asset for the lease term while the lease liability represents the obligation to make lease payments arising from the lease. The right-of-use asset and the lease liability are initially recorded at the same amount at the lease commencement date based on the present value of the remaining lease payments discounted using the Company's incremental borrowing rate. The operating lease right-of-use asset also include previously recognized impairments and purchase price adjustments relating to favorable and unfavorable terms of leases acquired as part of business combinations. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Any potential impairment for right-of-use assets will be calculated in the same manner as disclosed under impairment of long-lived assets.

The terms of a lease arrangement determine how a lease is classified (operating or finance), the resulting recognition pattern in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss) and the classification in the Consolidated Balance Sheets.

Finance lease expense is represented by the interest on the lease liability determined using the effective interest method and the amortization of the finance lease right-of-use asset calculated using the straight-line method over the estimated useful life of the identified asset. Finance lease related balances are included in the Consolidated Balance Sheets in Property, plant and equipment, net, Long-term debt due within one year and Long-term debt.

Operating lease expense is recorded on a straight-line basis over the lease term by adding interest expense determined using the effective interest method to the amortization of the right-of-use asset. Operating lease related balances are included in the Consolidated Balance Sheets in Operating lease right-of-use assets, Operating lease liabilities due within one year and Operating lease liabilities.

The Company elected to initially apply the new leases standard as of January 1, 2019 with certain available practical expedients. No cumulative-effect adjustments on retained earnings were necessary as of January 1, 2019. The most significant impact of adopting the new standard was the recognition of right-of-use assets and lease liabilities for operating leases. The accounting for finance leases remains substantially unchanged.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTANGIBLE ASSETS

Indefinite-lived intangible assets are not amortized and are evaluated for impairment individually at the beginning of the fourth quarter of every year, or more frequently whenever indicators of potential impairment exist. The Company has the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of indefinite-lived intangible assets is less than their carrying amounts. To carry out the qualitative assessment, the Company considers elements such as the results of recent fair value assessments, macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, specific events affecting the Company and the business. The identification and impact assessment of events and circumstances on the fair value involves significant judgment and assumptions. If a qualitative assessment is performed and after assessing the qualitative factors, the Company determines that it is more likely than not that the fair value of the indefinite-lived intangible assets is less than their carrying amounts, then a quantitative impairment test is required. The Company can also elect to proceed directly to the quantitative test. The quantitative impairment test consists of comparing the fair value of the indefinite-lived intangible assets determined using a variety of methodologies to their carrying amount. If the carrying amounts of the indefinite-lived intangible assets exceed their fair value, an impairment loss is recognized in an amount equal to that excess.

Indefinite-lived intangible assets include license rights and water rights. The Company reviews its indefinite-lived intangible assets each reporting period to determine whether events and circumstances continue to support indefinite useful lives.

Definite-lived intangible assets are stated at cost less amortization and are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Definite-lived intangible assets include water rights, customer relationships, technology as well as non-compete agreements, which are being amortized using the straight-line method over their respective estimated useful lives. Any potential impairment for definite-lived intangible assets will be calculated in the same manner as disclosed under impairment of long-lived assets.

Amortization is based on the following useful lives:

	Useful life
Water rights	40 years
Customer relationships	20 to 30 years
Technology	7 to 20 years
Non-Compete agreements	9 years

DEBT ISSUANCE COSTS

Debt issuance costs are presented in the Consolidated Balance Sheets as a deduction from the carrying value of long-term debt. Debt issuance costs associated with revolving credit arrangements are presented in Other assets in the Consolidated Balance Sheets. Debt issuance costs are amortized using the effective rate method over the term of the related debt and included in Interest expense, net in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss).

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ENVIRONMENTAL COSTS AND ASSET RETIREMENT OBLIGATIONS

Environmental expenditures for effluent treatment, air emission, silvicultural activities and site remediation (together referred to as environmental matters) are expensed or capitalized depending on their future economic benefit. In the normal course of business, Domtar incurs certain operating costs for environmental matters that are expensed as incurred. Expenditures for property, plant and equipment that prevent future environmental impacts are capitalized and amortized on a straight-line basis over 10 to 40 years. Provisions for environmental matters are recorded when remediation efforts are probable and can be reasonably estimated. Provisions for environmental matters are generally not discounted, due to uncertainty with respect to timing of expenditures.

Asset retirement obligations are mainly associated with landfill operation and closure, dredging of settling ponds and bark pile management and are recognized, at fair value, in the period in which Domtar incurs a legal obligation associated with the retirement of an asset. Conditional asset retirement obligations are recognized, at fair value, when the fair value of the liability can be reasonably estimated on a probability-weighted discounted cash flow estimate. The associated costs are capitalized as part of the carrying value of the related asset and depreciated over its remaining useful life. The liability is accreted using the credit adjusted risk-free interest rate used to discount the cash flow.

STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

Domtar recognizes the cost (net of estimated forfeitures) of employee services received in exchange for awards of equity instruments over the requisite service period, based on their grant date fair value for awards accounted for as equity and based on the quoted market value at the end of each reporting period for awards accounted for as liability. The Company awards are accounted for as compensation expense in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss) and presented in Additional paid-in capital on the Consolidated Balance Sheets for equity type awards and presented in Other liabilities and deferred credits on the Consolidated Balance Sheets for liability type awards.

The Company's awards may be subject to market, performance and/or service conditions. Any consideration paid by plan participants on the exercise of stock options or the purchase of shares is credited to Additional paid-in capital in the Consolidated Balance Sheets. The par value included in the Additional paid-in capital component of stock-based compensation is transferred to Common stock upon the issuance of shares of common stock.

Stock options subject to service conditions vest pro rata on the first three anniversaries of the grant and have a seven-year term. Service and performance-based awards vest on the third anniversary of the grant. The performance-based awards have an additional feature where the ultimate number of units that vest will be determined by the Company's performance results or shareholder return in relation to a predetermined target over the vesting period. Deferred Share Units vest immediately at the grant date and are remeasured at the end of each reporting period, until settlement, using the quoted market value.

Under the amended and restated Domtar Corporation 2007 Omnibus Incentive Plan ("Omnibus Plan"), a maximum of 872,136 shares are reserved for issuance in connection with awards to be granted.

DERIVATIVE INSTRUMENTS

Derivative instruments may be utilized by Domtar as part of the overall strategy to manage exposure to fluctuations in foreign currency, interest rate and commodity price on certain purchases. As a matter of policy, derivatives are not used for trading or speculative purposes. All derivatives are recorded at fair value either as assets or liabilities. When derivative instruments have been designated within a hedge relationship and are highly effective in offsetting the identified risk characteristics of specific financial assets and liabilities or group of financial assets and liabilities, hedge accounting is applied. In a fair value hedge, changes in fair value of derivatives are recognized in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss). The change in fair value of the hedged item attributable to the hedged risk is also recorded in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss) by way of a corresponding adjustment of the carrying amount of the hedged item recognized in the Consolidated Balance Sheets. In a cash flow hedge, changes in fair value of derivative instruments are recorded in Other comprehensive income (loss). These amounts are reclassified in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss) in the periods in which results are affected by the cash flows of the hedged item within the same line item.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PENSION PLANS

Domtar's plans include funded and unfunded defined benefit and defined contribution pension plans. Domtar recognizes the overfunded or underfunded status of defined benefit and underfunded defined contribution pension plans as an asset or liability in the Consolidated Balance Sheets. The net periodic benefit cost includes the following:

- The cost of pension benefits provided in exchange for employees' services rendered during the period,
- The interest cost of pension obligations,
- The expected long-term return on pension fund assets based on a market value of pension fund assets,
- Gains or losses on settlements and curtailments,
- The straight-line amortization of past service costs and plan amendments over the average remaining service period of approximately ten years of the active employee group covered by the plans, and
- The amortization of cumulative net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation and the market value of assets over the average remaining service period of approximately ten years of the active employee group covered by the plans.

The defined benefit plan obligations are determined in accordance with the projected unit credit actuarial cost method.

OTHER POST-RETIREMENT BENEFIT PLANS

The Company recognizes the unfunded status of other post-retirement benefit plans (other than multiemployer plans) as a liability in the Consolidated Balance Sheets. These benefits, which are funded by Domtar as they become due, include life insurance programs, medical and dental benefits and short-term and long-term disability programs. The Company amortizes the cumulative net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation and the market value of assets over the average remaining service period of approximately 12 years of the active employee group covered by the plans.

GUARANTEES

A guarantee is a contract or an indemnification agreement that contingently requires Domtar to make payments to the other party of the contract or agreement, based on changes in an underlying item that is related to an asset, a liability or an equity security of the other party or on a third party's failure to perform under an obligating agreement. It could also be an indirect guarantee of the indebtedness of another party, even though the payment to the other party may not be based on changes in an underlying item that is related to an asset, a liability or an equity security of the other party. Guarantees, when applicable, are accounted for at fair value.

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NOTE 2.

RECENT ACCOUNTING PRONOUNCEMENTS

ACCOUNTING CHANGES IMPLEMENTED

IMPLEMENTATION COSTS FOR CLOUD COMPUTING ARRANGEMENTS

In August 2018, the FASB issued Accounting Standards Update (“ASU”) 2018-15, “*Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*”. Under the guidance, implementation costs for cloud computing arrangements should be evaluated for capitalization using the same approach as implementation costs associated with internal-use software and expensed over the term of the hosting arrangement. The ASU also provides guidance on presentation and disclosure.

The Company adopted the new guidance on January 1, 2020 with no significant impact on the consolidated financial statements.

RECEIVABLES

In June 2016, the FASB issued ASU 2016-13, “*Financial Instruments - Credit Losses*”. This ASU added a new impairment model (known as the current expected credit loss (“CECL”) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes an allowance for its estimate of expected credit losses and applies to most debt instruments, trade receivables, lease receivables, financial guarantee contracts, and other loan commitments. The CECL model does not have a minimum threshold for recognition of impairment losses and entities will need to measure expected credit losses on assets that have a low risk of loss.

The Company adopted the new guidance on January 1, 2020 with no significant impact on the consolidated financial statements.

INCOME TAXES

In December 2019, the FASB issued ASU 2019-12, “*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*”. The ASU simplifies the accounting for income taxes by eliminating certain exceptions in ASC 740 related to the methodology for calculating income taxes in an interim period. It also clarifies and simplifies other aspects of the accounting for income taxes, improving the consistent application and simplification of U.S. GAAP. For public companies, the amendments in this ASU are effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years, with early adoption permitted. The Company elected to early adopt this standard for its interim period ended September 30, 2020, using the methods directed by the standard. The most significant impact to the Company is the removal of a limit on the tax benefit recognized on pre-tax losses in interim periods, which allowed the Company to recognize a higher tax benefit in the quarter of adoption than previously allowable. The adoption of this ASU did not change the total income tax benefit the Company recognized for the full year ended December 31, 2020.

FUTURE ACCOUNTING CHANGES

TRANSITION AWAY FROM INTERBANK OFFERED RATES

On March 12, 2020, the FASB issued ASU 2020-04, “*Facilitation of the Effects of Reference Rate Reform on Financial Reporting*”. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued.

The amendments in the ASU are elective and apply to entities that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. An entity may elect to apply the amendments prospectively through December 31, 2022.

The Company has begun its impact assessment and while its evaluation of this guidance is in the early stages, the Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.

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NOTE 3.

DISCONTINUED OPERATIONS

Sale of Personal Care business

On January 7, 2021, Domtar Corporation entered into a definitive agreement with American Industrial Partners (AIP) to sell the Company's Personal Care business for a purchase price of \$920 million in cash, including elements of working capital estimated at \$130 million, subject to customary adjustments. Subject to the satisfaction or waiver of conditions of the agreement, the transaction is expected to close in the first quarter of 2021.

The result of operations of the Company's Personal Care business were reclassified to discontinued operations during 2020. These results have been summarized in Earnings (loss) from discontinued operations, net of taxes on the Company's Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss) for each period presented. The Consolidated Statements of Cash Flows were not reclassified to reflect discontinued operations. Personal Care was previously disclosed as a separate reportable business segment.

Major components of earnings (loss) from discontinued operations:

	Year ended December 31, 2020	Year ended December 31, 2019	Year ended December 31, 2018
	\$	\$	\$
Sales	995	920	959
Operating expenses			
Cost of sales, excluding depreciation and amortization	721	684	734
Depreciation and amortization	60	62	67
Selling, general and administrative	141	143	151
Impairment of long-lived assets	1	26	7
Closure and restructuring costs	—	20	8
Other operating loss, net	2	1	1
	925	936	968
Operating income (loss)	70	(16)	(9)
Loss on classification as held for sale	45	—	—
Earnings (loss) from discontinued operations before income taxes	25	(16)	(9)
Income tax expense (benefit)	7	(15)	(11)
Net earnings (loss) from discontinued operations	18	(1)	2

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NOTE 3. DISCONTINUED OPERATIONS (CONTINUED)

Major classes of assets and liabilities classified as held for sale in the accompanying Balance Sheets were as follows:

	At	
	December 31, 2020	December 31, 2019
	\$	\$
Assets		
Receivables	110	94
Inventories	138	123
Prepaid expenses	3	4
Income and other taxes receivable	3	6
Property, plant and equipment, net	351	344
Operating lease right-of-use assets	15	22
Intangible assets, net (2)(3)	554	543
Other assets	2	2
Total assets	1,176	1,138
Loss on classification as held for sale	(43)	—
Total assets of the disposal group classified as held for sale on the Consolidated Balance Sheets (1)	1,133	1,138
Liabilities		
Trade and other payables	128	125
Income and other taxes payable	12	7
Operating lease liabilities due within one year	8	10
Long-term debt	1	1
Operating lease liabilities	8	29
Deferred income taxes and other	130	119
Other liabilities and deferred credits	8	7
Total liabilities of the disposal group classified as held for sale on the Consolidated Balance Sheets (1)	295	298

(1) Total assets and liabilities of discontinued operations are classified in current assets and liabilities, respectively, in the Company's Consolidated Balance Sheet at December 31, 2020, as the discontinued operations are expected to be disposed in the first quarter of 2021. The assets and liabilities of discontinued operations are classified in their respective current and long-term classifications, in the Company's Consolidated Balance Sheet at December 31, 2019 in accordance with the nature and underlying classification of such assets and liabilities.

(2) Intangible assets, net at December 31, 2020 are comprised of \$290 million of indefinite-lived assets and \$264 million of definite-lived assets (2019 – \$272 million and \$271 million, respectively).

(3) Indefinite-lived intangible assets of the disposal group held for sale consists of trade names (\$248 million) and catalog rights (\$42 million) following the business acquisitions in the Company's former Personal Care segment. Indefinite-lived intangible assets included in the disposal group held for sales are tested at the asset level. In connection with the Company's annual impairment testing in the fourth quarter of 2020, a quantitative assessment was performed for each indefinite lived intangible asset. If the carrying amounts of the indefinite-lived intangible assets exceed their respective fair value, an impairment loss is recognized in an amount equal to that excess. In performing the quantitative assessment, fair value of the indefinite-lived intangible assets is derived using an income approach. Under this approach, the fair value of indefinite-lived intangible assets is estimated based on the present value of estimated future cash flows (a relief from royalty model). Considerable management judgment is necessary to estimate future cash flows used to measure the fair value. Key estimates supporting the cash flow projections include, but are not limited to, management's assessment of industry and market conditions as well as estimates of revenue growth rates, royalty rate, tax rates and discount rates. Financial forecasts are consistent with the

DOMTAR CORPORATION
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NOTE 3. DISCONTINUED OPERATIONS (CONTINUED)

Company's operating plans and are prepared for each indefinite-lived intangible asset assessment. The discount rate assumptions used are based on the weighted-average cost of capital adjusted for business-specific and other relevant risks. The quantitative assessment performed in the fourth quarter of 2020 indicated that the indefinite-lived intangible assets had fair values that exceeded their carrying amounts. Variations in management's assumptions and estimates, particularly in the expected growth rates and royalty rates embedded in the cash flow projections, and the discount rate could have a significant impact on fair value. The Company's former Personal Care business was classified as a disposal group held for sale in the fourth quarter of 2020 and the Company performed an updated impairment assessment of the indefinite-lived intangible assets included in the disposal group held for sale. The updated impairment assessment did not result in an impairment loss.

Cash Flows from Discontinued Operations:

	<u>Year ended December 31, 2020</u> \$	<u>Year ended December 31, 2019</u> \$	<u>Year ended December 31, 2018</u> \$
Cash flows from operating activities	111	90	58
Cash flows used for investing activities	(34)	(40)	(29)

DOMTAR CORPORATION
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NOTE 4.

ACQUISITION OF BUSINESS

Purchase of Appvion Point of Sale business

On April 27, 2020, Domtar Corporation completed the acquisition of the Point of Sale paper business from Appvion Operation Inc. The business includes the coater and related equipment located at Appvion's West Carrollton, Ohio, facility as well as a license for all corresponding intellectual property and assumed liabilities related to post-retirement benefits. The results of this business have been included in the consolidated financial statements as of April 27, 2020. The purchase price was \$20 million in cash plus the book value of raw materials and finished goods inventory, subject to post-closing adjustments. The acquisition was accounted for as a business combination under the acquisition method of accounting. The total purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on the Company's estimates of their fair value, which are based on information currently available.

The table below illustrates the purchase price allocation:

Fair value of net assets acquired at the date of acquisition	
Inventories	11
Property, plant and equipment	23
Operating lease right-of-use assets	<u>2</u>
Total assets	36
Less: Assumed Liabilities	6
Fair value of net assets acquired at the date of acquisition	30

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NOTE 5.

STOCK-BASED COMPENSATION

OMNIBUS PLAN

Under the Omnibus Plan, the Company may award to key employees and non-employee directors, at the discretion of the Human Resources Committee of the Board of Directors, non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock units, performance-conditioned restricted stock units, performance share units, deferred share units (“DSUs”) and other stock-based awards. The non-employee directors only receive DSUs. The Company generally grants awards annually and uses, when available, treasury stock to fulfill awards settled in common stock and option exercises.

PERFORMANCE SHARE UNITS (“PSUs”)

PSUs are granted to Management Committee and non-Management Committee members. These awards will be settled in shares for Management Committee members and in cash for non-Management Committee members, based on market conditions and/or performance and service conditions. These awards have an additional feature where the ultimate number of units that vest will be determined by the Company’s performance results or shareholder return in relation to a predetermined target over the vesting period. No awards vest when the minimum thresholds are not achieved. The performance measurement date will vary depending on the specific award. These awards will cliff vest at various dates up to February 18, 2023.

<u>PSUs</u>	<u>Number of units</u>	<u>Weighted average grant date fair value</u> \$
Vested and non-vested at December 31, 2017	622,468	37.78
Granted	238,537	41.39
Forfeited	(36,932)	38.09
Issued	52,563	41.05
Vested and settled	<u>(154,178)</u>	<u>44.22</u>
Vested and non-vested at December 31, 2018	<u>722,458</u>	<u>37.82</u>
Granted	192,261	61.46
Forfeited	(24,980)	45.54
Cancelled	(41,399)	57.09
Vested and settled	<u>(222,019)</u>	<u>32.39</u>
Vested and non-vested at December 31, 2019	<u>626,321</u>	<u>45.42</u>
Granted	304,604	36.70
Forfeited	(27,778)	45.25
Cancelled	(150,542)	45.41
Vested and settled	<u>(216,701)</u>	<u>39.04</u>
Vested and non-vested at December 31, 2020	<u>535,904</u>	<u>43.06</u>

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NOTE 5. STOCK-BASED COMPENSATION (CONTINUED)

The fair value of PSUs granted in 2020, 2019 and 2018 was estimated at the grant date using the Monte Carlo simulation methodology. The Monte Carlo simulation creates artificial futures by generating numerous sample paths of potential outcomes. The following assumptions were used in calculating the fair value of the units granted:

	2020	2019	2018
Dividend yield	5.338%	3.323%	3.800%
Expected volatility 1 year	32%	31%	22%
Expected volatility 3 years	29%	28%	26%
Risk-free interest rate December 31, 2018	—	—	2.23%
Risk-free interest rate December 31, 2019	—	2.85%	2.46%
Risk-free interest rate December 31, 2020	1.42%	2.65%	2.61%
Risk-free interest rate December 31, 2021	1.26%	2.56%	—
Risk-free interest rate December 31, 2022	1.21%	—	—

At December 31, 2020, of the total vested and non-vested PSUs, 277,653 are expected to be settled in shares and 258,251 will be settled in cash.

RESTRICTED STOCK UNITS (“RSUs”)

RSUs are granted to Management Committee and non-Management Committee members. These awards will be settled in shares for Management Committee members and in cash for non-Management Committee members, upon completing service conditions. The awards cliff vest after a service period of approximately three years. Additionally, the RSUs are credited with dividend equivalents in the form of additional RSUs when cash dividends are paid on the Company’s stock. The grant date fair value of RSUs is equal to the market value of the Company’s stock on the date the awards are granted.

<u>RSUs</u>	<u>Number of units</u>	<u>Weighted average grant date fair value \$</u>
Non-vested at December 31, 2017	460,663	38.56
Granted/issued	157,502	44.04
Forfeited	(27,251)	39.91
Vested and settled	(135,323)	42.54
Non-vested at December 31, 2018	455,591	39.16
Granted/issued	156,417	51.07
Forfeited	(21,203)	42.86
Vested and settled	(174,353)	34.96
Non-vested at December 31, 2019	416,452	45.20
Granted/issued	231,012	33.26
Forfeited	(19,521)	41.05
Vested and settled	(147,753)	40.21
Non-vested at December 31, 2020	480,190	41.16

At December 31, 2020, of the total non-vested RSUs, 229,731 are expected to be settled in shares and 250,459 will be settled in cash.

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NOTE 5. STOCK-BASED COMPENSATION (CONTINUED)

DEFERRED SHARE UNITS

DSUs are granted to the Company's Directors. The DSUs granted to the Directors vest immediately on the grant date. The DSUs are credited with dividend equivalents in the form of additional DSUs when cash dividends are paid on the Company's stock. For Directors' DSUs, the Company will deliver at the option of the holder either one share of common stock or the cash equivalent of the fair market value on settlement of each outstanding DSU (including dividend equivalents accumulated) upon termination of service. Directors who attained the share ownership requirements may elect to receive the equity component of their annual retainer in DSUs that may be settled in either cash or stock one year after the grant date. The grant date fair value of DSU awards is equal to the market value of the Company's stock on the date the awards are granted.

Management Committee members may elect to defer awards earned under another program into DSUs. In 2020, no vested awards were deferred to DSUs (2019 – nil; 2018 – nil).

<u>DSUs</u>	<u>Number of units</u>	<u>Weighted average grant date fair value</u> \$
Vested at December 31, 2017	272,234	29.55
Granted/issued	31,691	44.64
Settled	(9,752)	40.95
Vested at December 31, 2018	<u>294,173</u>	<u>30.79</u>
Granted/issued	35,596	41.32
Settled	(12,606)	43.90
Vested at December 31, 2019	<u>317,163</u>	<u>31.45</u>
Granted/issued	48,943	25.11
Settled	(10,873)	40.96
Vested at December 31, 2020	<u>355,233</u>	<u>30.29</u>

NON-QUALIFIED STOCK OPTIONS

Stock options are granted to Management Committee and non-Management Committee members. The stock options vest at various dates up to February 20, 2021 subject to service conditions. The options expire at various dates no later than seven years from the date of grant. In 2020 and 2019, no stock options were granted.

The fair value of the stock options granted in 2018 was estimated at the grant date using a Black-Scholes based option pricing model or an option pricing model that incorporated the market conditions when applicable. The following assumptions were used in calculating the fair value of the options granted:

Dividend yield	<u>2018</u> 3.27%
Expected volatility	29%
Risk-free interest rate	2.62%
Expected life	4.5 years
Strike price	<u>\$ 43.66</u>

The grant date fair value of the non-qualified options granted in 2018 was \$8.65.

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NOTE 5. STOCK-BASED COMPENSATION (CONTINUED)

OPTIONS	Number of options	Weighted average exercise price \$	Weighted average remaining life (in years)	Aggregate intrinsic value (in millions) \$
Outstanding at December 31, 2017	563,065	44.46	4.1	3.6
Granted	104,086	43.66	6.2	—
Exercised	(147,397)	39.42	—	—
Forfeited/expired	(6,102)	50.05	—	—
Outstanding at December 31, 2018	<u>513,652</u>	<u>45.68</u>	<u>3.6</u>	<u>0.1</u>
Exercisable at December 31, 2018	<u>303,055</u>	<u>49.15</u>	<u>2.3</u>	<u>—</u>
Outstanding at December 31, 2018	513,652	45.68	3.6	0.1
Exercised	(88,682)	39.46	—	—
Forfeited/expired	(3,616)	53.13	—	—
Outstanding at December 31, 2019	<u>421,354</u>	<u>46.92</u>	<u>2.5</u>	<u>0.1</u>
Exercisable at December 31, 2019	<u>316,530</u>	<u>48.44</u>	<u>1.8</u>	<u>0.1</u>
Outstanding at December 31, 2019	421,354	46.92	2.5	0.1
Forfeited/expired	(15,030)	43.09	—	—
Outstanding at December 31, 2020	<u>406,324</u>	<u>47.07</u>	<u>1.6</u>	<u>—</u>
Exercisable at December 31, 2020	<u>371,622</u>	<u>47.38</u>	<u>1.4</u>	<u>—</u>

The total intrinsic value of options exercised in 2019 and 2018 was \$1 million and \$1 million, respectively. Based on the Company's closing year-end stock price of \$31.65 (2019 – \$38.24; 2018 – \$35.13), the aggregate intrinsic value of options outstanding and options exercisable is nil.

For the year ended December 31, 2020, stock-based compensation expense recognized in the Company's results from continuing and discontinued operations was \$7 million (2019 – \$22 million; 2018 – \$10 million) for all outstanding awards. Compensation costs not yet recognized amounted to \$15 million (2019 – \$16 million; 2018 – \$17 million) and will be recognized over the average remaining service period of approximately 14 months. The aggregate value of liability awards settled in 2020 was \$6 million (2019 – \$12 million; 2018 – \$8 million). The total fair value of equity awards settled in 2020 was \$6 million (2019 – \$11 million; 2018 – \$6 million), representing the fair value at the time of settlement. The fair value at the grant date for these settled equity awards was \$7 million (2019 – \$6 million; 2018 – \$7 million). Compensation costs for performance awards are based on management's best estimate of the final performance measurement.

CLAWBACK FOR FINANCIAL REPORTING MISCONDUCT

If a participant in the Omnibus Plan knowingly or grossly negligently engages in financial reporting misconduct, then all awards and gains from the exercise of options in the 12 months prior to the date the misleading financial statements were issued as well as any awards that vested based on the misleading financial statements will be disgorged to the Company. In addition, the Company may cancel or reduce, or require a participant to forfeit and disgorge to the Company or reimburse the Company for, any awards granted or vested, and bonus granted or paid, and any gains earned or accrued, due to the exercise, vesting or settlement of awards or sale of any common stock, to the extent permitted or required by, or pursuant to any Company policy implemented as required by applicable law, regulation or stock exchange rule as may from time to time be in effect.

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NOTE 6.

EARNINGS (LOSS) PER COMMON SHARE

The calculation of basic (loss) earnings per common share is based on the weighted average number of Domtar common shares outstanding during the year. The calculation for diluted (loss) earnings per common share recognizes the effect of all potential dilutive common securities.

The following table provides the reconciliation between basic and diluted (loss) earnings per common share:

	Year ended December 31, 2020	Year ended December 31, 2019	Year ended December 31, 2018
(Loss) earnings from continuing operations	\$ (145)	\$ 85	\$ 281
Earnings (loss) from discontinued operations, net of taxes	\$ 18	\$ (1)	\$ 2
Net (loss) earnings	<u>\$ (127)</u>	<u>\$ 84</u>	<u>\$ 283</u>
Weighted average number of common shares outstanding (millions)	55.4	61.2	62.9
Effect of dilutive securities (millions)	—	0.2	0.2
Weighted average number of diluted common shares outstanding (millions)	<u>55.4</u>	<u>61.4</u>	<u>63.1</u>
Basic net (loss) earnings per common share (in dollars)			
(Loss) earnings from continuing operations	\$ (2.62)	\$ 1.39	\$ 4.47
Earnings (loss) from discontinued operations	\$ 0.33	\$ (0.02)	\$ 0.03
Basic net (loss) earnings per common share	<u>\$ (2.29)</u>	<u>\$ 1.37</u>	<u>\$ 4.50</u>
Diluted net (loss) earnings per common share (in dollars)			
(Loss) earnings from continuing operations	\$ (2.62)	\$ 1.39	\$ 4.45
Earnings (loss) from discontinued operations	\$ 0.33	\$ (0.02)	\$ 0.03
Diluted net (loss) earnings per common share	<u>\$ (2.29)</u>	<u>\$ 1.37</u>	<u>\$ 4.48</u>

The following table provides the securities that could potentially dilute basic (loss) earnings per common share in the future, but were not included in the computation of diluted (loss) earnings per common share because to do so would have been anti-dilutive:

	December 31, 2020	December 31, 2019	December 31, 2018
Options to purchase common shares	<u>406,324</u>	<u>324,413</u>	<u>227,221</u>

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NOTE 7.

PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS

DEFINED CONTRIBUTION PLANS

The Company has several defined contribution plans and multiemployer plans. The pension expense under these plans is equal to the Company's contribution. For the year ended December 31, 2020, the related pension expense was \$39 million (2019 – \$39 million; 2018 – \$46 million).

DEFINED BENEFIT PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS

The Company sponsors both contributory and non-contributory U.S. and non-U.S. defined benefit pension plans. Non-unionized employees in Canada joining the Company after January 1, 1998 participate in a defined contribution pension plan. Salaried employees in the U.S. joining the Company after January 1, 2008 participate in a defined contribution pension plan. Unionized and non-union hourly employees in the U.S. that are not grandfathered under the existing defined benefit pension plans, participate in a defined contribution pension plan for future service. The Company also sponsors a number of other post-retirement benefit plans for eligible U.S. and non-U.S. employees; the plans are unfunded and include life insurance programs and medical and dental benefits. The Company also provides supplemental unfunded defined benefit pension plans and supplemental unfunded defined contribution pension plans to certain senior management employees.

Related pension and other post-retirement plan expenses and the corresponding obligations are actuarially determined using management's most probable assumptions.

The Company's pension plan funding policy is to contribute annually the amount required to provide for benefits earned in the year and to fund solvency deficiencies, funding shortfalls and past service obligations over periods not exceeding those permitted by the applicable regulatory authorities. Past service obligations primarily arise from improvements to plan benefits. The other post-retirement benefit plans are not funded, and contributions are made annually to cover benefit payments.

The Company expects to contribute a minimum total amount of \$13 million in 2021 compared to \$15 million in 2020 (2019 – \$17 million; 2018 – \$57 million) to the pension plans. The Company expects to contribute a minimum total amount of \$4 million in 2021 compared to \$4 million in 2020 (2019 – \$4 million; 2018 – \$4 million) to the other post-retirement benefit plans.

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NOTE 7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

CHANGE IN PROJECTED BENEFIT OBLIGATION

The following table represents the change in the projected benefit obligation as of December 31, 2020 and December 31, 2019, the measurement date for each year:

	December 31, 2020		December 31, 2019	
	Pension plans \$	Other post- retirement benefit plans \$	Pension plans \$	Other post- retirement benefit plans \$
Projected benefit obligation at beginning of year	1,425	63	1,557	62
Service cost for the year	29	1	29	1
Interest expense	39	2	57	2
Plan participants' contributions	6	—	6	—
Actuarial loss (gain)	127	2	170	(1)
Plan amendments	2	—	—	—
Benefits paid	(67)	—	(96)	—
Direct benefit payments	(3)	(4)	(4)	(4)
Acquisition of business	—	1	—	—
Curtailed (1)	(1)	—	—	—
Settlement (2)	(15)	—	(348)	—
Effect of foreign currency exchange rate change	24	2	54	3
Projected benefit obligation at end of year	1,566	67	1,425	63

During 2020 and 2019, net actuarial losses increased the projected benefit obligation due to the decrease in discount rates.

The accumulated benefit obligation of the pension plans at December 31, 2020 and 2019 was \$1,516 million and \$1,379 million, respectively.

CHANGE IN FAIR VALUE OF ASSETS

The following table represents the change in the fair value of assets, as of December 31, 2020 and December 31, 2019, reflecting the actual return on plan assets, the contributions and the benefits paid for each year:

	December 31, 2020	December 31, 2019
	Pension plans \$	Pension plans \$
Fair value of assets at beginning of year	1,465	1,579
Actual return on plan assets	166	253
Employer contributions	15	17
Plan participants' contributions	6	6
Benefits paid	(70)	(100)
Settlement (2)	(15)	(348)
Effect of foreign currency exchange rate change	27	58
Fair value of assets at end of year	1,594	1,465

- (1) Curtailed accounting was triggered following the restructuring activities that occurred in 2020. The impact was estimated as of July 31, 2020, based on the information known at that time and was remeasured on December 31, 2020.
- (2) Settlement accounting was triggered as of December 31, 2020, following the restructuring activities that occurred in 2020, to reflect lump sums paid in 2020 in excess of the sum of service cost and interest cost.

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NOTE 7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

- (2) On November 26, 2019, the Company entered into agreements with Sun Life Assurance Company of Canada to purchase group annuity buy-out contracts and transfer approximately \$272 million (CDN \$360 million) of its Ontario, Canada defined benefit plans' projected benefit obligations. The transactions closed on December 5, 2019 and were funded with pension plan assets. Additionally, the Company entered into agreements with existing insurers to convert \$76 million (CDN \$101 million) of existing buy-in annuity contracts to buy-out annuity contracts to complete the full transfer of these obligations. These annuity buy-out transactions transferred responsibility for pension benefits for approximately 1,265 retirees and their beneficiaries. Settlement accounting rules required a remeasurement of the plans as of November 26, 2019 and the Company recognized a non-cash pension settlement charge of \$30 million before tax in the fourth quarter of 2019.

INVESTMENT POLICIES AND STRATEGIES OF THE PLAN ASSETS

The assets of the pension plans are held by a number of independent trustees and are accounted for separately in the Company's pension funds. The investment strategy for the assets in the pension plans is to maintain a diversified portfolio of assets, invested in a prudent manner to maintain the security of funds while maximizing returns within the guidelines provided in the investment policy. Diversification of the pension plans' holdings is maintained in order to reduce the pension plans' annual return variability, reduce market and credit exposure to any single asset and to any single component of the capital markets, reduce exposure to unexpected inflation, enhance the long-term risk-adjusted return potential of the pension plans and reduce funding risk.

Over the long-term, the performance of the pension plans is primarily determined by the long-term asset mix decisions. To manage the long-term risk of not having sufficient funds to match the obligations of the pension plans, the Company conducts asset/liability studies. These studies lead to the recommendation and adoption of a long-term asset mix target that sets the expected rate of return and reduces the risk of adverse consequences to the plans from increases in liabilities and decreases in assets. In identifying the asset mix target that would best meet the investment objectives, consideration is given to various factors, including (a) each plan's characteristics, (b) the duration of each plan's liabilities, (c) the solvency and going concern financial position of each plan and their sensitivity to changes in interest rates and inflation, and (d) the long-term return and risk expectations for key asset classes.

The investments of each plan can be done directly through cash investments in equities or bonds or indirectly through derivatives or pooled funds. The use of derivatives must be in accordance with an approved mandate and cannot be used for speculative purposes.

The Company's pension funds are not permitted to directly own any of the Company's shares or debt instruments.

The following table shows the allocation of the plan assets, based on the fair value of the assets held and the target allocation for 2020:

	<u>Target allocation</u>	<u>Percentage of plan assets at December 31, 2020</u>	<u>Percentage of plan assets at December 31, 2019</u>
Fixed income			
Cash and cash equivalents	0% – 10%	2%	2%
Bonds	40% – 50%	42%	53%
Insurance contracts	11%	11%	—
Equity			
Canadian Equity	3% – 10%	6%	6%
U.S. Equity	9% – 19%	15%	15%
International Equity	18% – 28%	24%	24%
Total (1)		100%	100%

- (1) Approximately 72% of the pension plans' assets relate to Canadian plans, 28% relate to U.S. plans.

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NOTE 7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

RECONCILIATION OF FUNDED STATUS TO AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEETS

The following table presents the difference between the fair value of assets and the actuarially determined projected benefit obligation. This difference is also referred to as either the deficit or surplus, as the case may be, or the funded status of the plans. The table further reconciles the amount of the surplus or deficit (funded status) to the net amount recognized in the Consolidated Balance Sheets.

	December 31, 2020		December 31, 2019	
	Pension plans \$	Other post- retirement benefit plans \$	Pension plans \$	Other post- retirement benefit plans \$
Projected benefit obligation at end of year	(1,566)	(67)	(1,425)	(63)
Fair value of assets at end of year	1,594	—	1,465	—
Funded status	<u>28</u>	<u>(67)</u>	<u>40</u>	<u>(63)</u>

The funded status includes \$61 million of projected benefit obligation (\$55 million at December 31, 2019) related to supplemental unfunded defined benefit and defined contribution plans.

	December 31, 2020		December 31, 2019	
	Pension plans \$	Other post- retirement benefit plans \$	Pension plans \$	Other post- retirement benefit plans \$
Trade and other payables (Note 17)	—	(5)	—	(5)
Other liabilities and deferred credits (Note 20)	(124)	(62)	(101)	(58)
Other assets (Note 15)	152	—	141	—
Net amount recognized in the Consolidated Balance Sheets	<u>28</u>	<u>(67)</u>	<u>40</u>	<u>(63)</u>

The following table presents the pre-tax amounts included in Other comprehensive income (loss):

	Year ended December 31, 2020		Year ended December 31, 2019		Year ended December 31, 2018	
	Pension plans \$	Other post- retirement benefit plans \$	Pension plans \$	Other post- retirement benefit plans \$	Pension plans \$	Other post- retirement benefit plans \$
Prior service cost	(2)	—	—	—	—	—
Amortization of prior year service cost (credit)	2	(1)	5	(1)	5	—
Net (loss) gain	(26)	(1)	3	1	(31)	8
Amortization of net actuarial loss (gain) (1)	12	(1)	40	(1)	8	(1)
Net amount recognized in other comprehensive income (loss) (pre-tax)	<u>(14)</u>	<u>(3)</u>	<u>48</u>	<u>(1)</u>	<u>(18)</u>	<u>7</u>

(1) Includes a non-cash settlement charge of \$2 million recognized in 2020 (2019 – \$30 million; 2018 – nil).

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NOTE 7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

At December 31, 2020, the projected benefit obligation and the fair value of plan assets with a projected benefit obligation in excess of fair value of plan assets were \$917 million and \$793 million, respectively (2019 – \$833 million and \$732 million, respectively).

Components of net periodic benefit cost for pension plans	Year ended December 31, 2020	Year ended December 31, 2019	Year ended December 31, 2018
	\$	\$	\$
Service cost for the year	29	29	34
Interest expense	39	57	53
Expected return on plan assets	(68)	(79)	(85)
Amortization of net actuarial loss	10	10	8
Curtailement loss	2	—	—
Settlement loss	2	30	—
Amortization of prior year service cost	2	5	5
Net periodic benefit cost	<u>16</u>	<u>52</u>	<u>15</u>

Components of net periodic benefit cost for other post-retirement benefit plans	Year ended December 31, 2020	Year ended December 31, 2019	Year ended December 31, 2018
	\$	\$	\$
Service cost for the year	1	1	1
Interest expense	2	2	2
Amortization of net actuarial gain	(1)	(1)	(1)
Amortization of prior year service credit	(1)	(1)	—
Net periodic benefit cost	<u>1</u>	<u>1</u>	<u>2</u>

WEIGHTED-AVERAGE ASSUMPTIONS

The Company used the following key assumptions to measure the projected benefit obligation and the net periodic benefit cost. These assumptions are long-term, which is consistent with the nature of employee future benefits.

Pension plans	December 31, 2020	December 31, 2019	December 31, 2018
Projected benefit obligation			
Discount rate	2.5%	3.1%	3.8%
Rate of compensation increase	2.7%	2.7%	2.7%
Net periodic benefit cost			
Discount rate	3.0%	3.8%	3.5%
Rate of compensation increase	2.8%	2.6%	2.8%
Expected long-term rate of return on plan assets	<u>4.6%</u>	<u>5.2%</u>	<u>5.0%</u>

A weighted-average interest-crediting rate of 3.3% was assumed for 2020, for the Company's cash balance pension plan.

The Company used a full yield curve approach to estimate the current service and interest cost components of net periodic benefit cost for Canadian pension plans and U.S. funded pension plans. The estimate of these components is made by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows.

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NOTE 7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

For the U.S. unfunded pension plan and other post-retirement benefits, given materiality, the current service and interest cost components were estimated using a single weighted-average discount rate derived from the yield curve for each unfunded pension plan or based on each post-retirement plans' projected cash flows. The discount rate of 3.2% for U.S. unfunded plans is obtained by incorporating the plans' expected cash flows in the Mercer Yield Curve.

For Canadian plans, short-term yields to maturity are derived from actual AA rated corporate bond yield data. For longer terms, extrapolated data is used. The extrapolated data are created by adding a term-based spread over long provincial bond yields. For U.S. funded plans, the rates are taken from the Mercer Yield Curve which is based on bonds rated AA by Moody's or Standard & Poor's, excluding callable bonds, bonds of less than a minimum issue size, and certain other bonds. The universe of bonds also includes private placement (traded in reliance on Rule 144A and which are at least two years from issuance), make whole, and foreign corporation (denominated in U.S. dollars) bonds.

Effective January 1, 2021, the Company will use 4.4% (2020 – 4.8%; 2019 – 5.2%) as the expected return on plan assets, which reflects the current view of long-term investment returns. The overall expected long-term rate of return on plan assets is based on management's best estimate of the long-term returns of the major asset classes (cash and cash equivalents, equities, and bonds) weighted by the target allocation of assets at the measurement date, net of expenses. This rate includes an equity risk premium over government bond returns for equity investments and a value-added premium for the contribution to returns from active management. The sources used to determine management's best estimate of long-term returns are numerous and include country specific bond yields, which may be derived from the market using local bond indices or by analysis of the local bond market, and country-specific inflation and investment market expectations derived from market data and analysts' or governments' expectations, as applicable.

Other post-retirement benefit plans	December 31, 2020	December 31, 2019	December 31, 2018
Projected benefit obligation			
Discount rate	2.5%	3.1%	3.8%
Rate of compensation increase	2.8%	2.8%	2.8%
Net periodic benefit cost			
Discount rate	3.0%	3.7%	3.5%
Rate of compensation increase	2.7%	2.7%	2.7%

For measurement purposes, a 3.9% weighted average annual rate of increase in the per capita cost of covered health care benefits was assumed for 2020.

FAIR VALUE MEASUREMENT

Fair Value Measurements and Disclosures Topic of FASB ASC 820 establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement.

- 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 assets or liabilities.

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NOTE 7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

The following table presents the fair value of the plan assets at December 31, 2020, by asset category:

Asset Category	Fair Value Measurements at December 31, 2020			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	\$	\$	\$	\$
Cash and short-term investments	60	16	44	—
Canadian provincial government bonds	391	388	3	—
Canadian corporate debt securities	63	46	17	—
U.S. corporate debt securities	23	22	1	—
International corporate debt securities	10	10	—	—
Bond fund (1 & 2)	173	—	173	—
Canadian equities (3)	97	97	—	—
U.S. equities (4)	99	99	—	—
International equities (5)	268	268	—	—
U.S. stock index funds (2 & 6)	233	—	233	—
Insurance contracts (7)	176	—	—	176
Derivative contracts (8)	1	—	1	—
Total	1,594	946	472	176

- (1) This category represents a U.S. actively managed bond fund that is benchmarked to the Barclays Capital Long-term Government/Credit index.
- (2) The fair value of these plan assets is classified as Level 2 (inputs that are observable, directly or indirectly) as they are measured based on quoted prices in active markets and can be redeemed at the measurement date or in the near term.
- (3) This category represents an active segregated large capitalization Canadian equity portfolio with the ability to purchase small and medium capitalized companies and the Canadian equity portion of an active segregated global equity portfolio.
- (4) This category represents U.S. equities held within an active segregated global equity portfolio and an active international equity portfolio.
- (5) This category represents an active segregated non-North American multi-capitalization equity portfolio and the non-North American portion of an active segregated global equity portfolio.
- (6) This category represents two equity index funds, not actively managed, that track the Russell 3000 index.
- (7) This category represents a group annuity contract purchased through an insurance company that is held in the pension plan's name as an asset within the pension plan. The insurance contract covers pension entitlements associated with specific groups of retired members of the pension plan.
- (8) The fair value of the derivative contracts is classified as Level 2 (inputs that are observable, directly or indirectly) as they are measured using long-term bond indices.

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NOTE 7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

The following table presents the fair value of the plan assets at December 31, 2019, by asset category:

Asset Category	Fair Value Measurements at December 31, 2019			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	\$	\$	\$	\$
Cash and short-term investments	66	24	42	—
Canadian provincial government bonds	454	453	1	—
Canadian corporate debt securities	119	91	28	—
U.S. corporate debt securities	21	21	—	—
International corporate debt securities	13	13	—	—
Bond fund (1 & 2)	166	—	166	—
Canadian equities (3)	93	93	—	—
U.S. equities (4)	86	86	—	—
International equities (5)	231	231	—	—
U.S. stock index funds (2 & 6)	215	—	215	—
Insurance contracts	1	—	—	1
Total	1,465	1,012	452	1

- (1) This category represents a U.S. actively managed bond fund that is benchmarked to the Barclays Capital Long-term Government/Credit index.
- (2) The fair value of these plan assets is classified as Level 2 (inputs that are observable, directly or indirectly) as they are measured based on quoted prices in active markets and can be redeemed at the measurement date or in the near term.
- (3) This category represents an active segregated large capitalization Canadian equity portfolio with the ability to purchase small and medium capitalized companies and the Canadian equity portion of an active segregated global equity portfolio.
- (4) This category represents U.S. equities held within an active segregated global equity portfolio and an active international equity portfolio.
- (5) This category represents an active segregated non-North American multi-capitalization equity portfolio and the non-North American portion of an active segregated global equity portfolio.
- (6) This category represents two equity index funds, not actively managed, that track the Russell 3000 index.

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NOTE 7. PENSION PLANS AND OTHER POST-RETIREMENT BENEFIT PLANS (CONTINUED)

The following table presents changes during the period for Level 3 fair value measurements of plan assets:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Pension plans	Insurance contracts
	\$	\$
Balance at December 31, 2018	76	76
Settlements		(84)
Return on plan assets		7
Effect of foreign currency exchange rate change		2
Balance at December 31, 2019	1	1
Purchases		163
Return on plan assets		3
Effect of foreign currency exchange rate change		9
Balance at December 31, 2020	<u>176</u>	<u>176</u>

ESTIMATED FUTURE BENEFIT PAYMENTS FROM THE PLANS

Estimated future benefit payments from the plans for the next 10 years at December 31, 2020 are as follows:

	Pension plans	Other post- retirement benefit plans
	\$	\$
2021	89	4
2022	88	4
2023	88	4
2024	90	4
2025	89	4
2026 – 2030	434	20

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NOTE 8.

OTHER OPERATING (INCOME) LOSS, NET

Other operating (income) loss, net is an aggregate of both recurring and non-recurring loss or income items and, as a result, can fluctuate from year to year. The Company's other operating (income) loss, net includes the following:

	<u>Year ended December 31, 2020</u>	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
	\$	\$	\$
Environmental provision	2	4	5
Foreign exchange loss (gain)	—	3	(3)
Bad debt expense	4	1	2
Net gain on sale of property, plant and equipment	(1)	—	(4)
Income for waiving a non-compete clause	(7)	—	—
Other	(5)	(4)	(1)
Other operating (income) loss, net	<u>(7)</u>	<u>4</u>	<u>(1)</u>

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NOTE 9.

INTEREST EXPENSE, NET

The following table presents the components of interest expense, net:

	<u>Year ended December 31, 2020</u>	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>
	\$	\$	\$
Interest on long-term debt (1)	52	45	56
Interest on receivables securitization	1	2	1
Interest on withdrawal liabilities for multiemployer plans	3	3	2
Amortization of debt issuance costs and other	2	2	3
	<u>58</u>	<u>52</u>	<u>62</u>

(1) The Company capitalized \$3 million of interest expense in 2020 (2019 – \$3 million; 2018 – \$1 million).

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NOTE 10.

INCOME TAXES

The Company's (loss) earnings before income taxes by taxing jurisdiction were:

	Year ended December 31, 2020	Year ended December 31, 2019	Year ended December 31, 2018
	\$	\$	\$
U.S. (loss) earnings	(199)	80	241
Foreign (loss) earnings	(19)	24	110
(Loss) earnings before income taxes	<u>(218)</u>	<u>104</u>	<u>351</u>

Provisions for income taxes include the following:

	Year ended December 31, 2020	Year ended December 31, 2019	Year ended December 31, 2018
	\$	\$	\$
U.S. Federal and State:			
Current	(21)	19	38
Deferred	(45)	(6)	(1)
Foreign:			
Current	(7)	4	5
Deferred	(3)	—	26
Income tax (benefit) expense	<u>(76)</u>	<u>17</u>	<u>68</u>

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NOTE 10. INCOME TAXES (CONTINUED)

The Company's provision for income taxes differs from the amounts computed by applying the statutory income tax rate of 21% to (loss) earnings before income taxes due to the following:

	Year ended December 31, 2020 \$	Year ended December 31, 2019 \$	Year ended December 31, 2018 \$
U.S. federal statutory income tax	(46)	22	74
Reconciling Items:			
State and local income taxes, net of federal income tax benefit	(6)	4	9
Foreign income tax rate differential	(1)	2	6
Tax credits and special deductions	(17)	(18)	(18)
U.S. tax rate benefit from loss carryback	(5)	—	—
Tax rate changes	—	(4)	(9)
Deemed mandatory repatriation tax	—	—	(7)
Uncertain tax positions	(4)	(3)	(5)
Deferred taxes on Personal Care Group Investment	(51)	—	—
Deferred taxes on foreign earnings	(1)	2	10
Intercompany income with assets held for sale	3	3	4
Net book value adjustment of assets held for sale	5	—	—
Valuation allowance on deferred tax assets	47	5	—
Nondeductible expenses	1	3	—
Other	(1)	1	4
Income tax (benefit) expense	<u>(76)</u>	<u>17</u>	<u>68</u>

On January 7, 2021, the Company reached an agreement with AIP to sell the Personal Care business for \$920 million. As such, for the December 31, 2020 reporting period, we are no longer indefinitely reinvested in that business and have classified our investment in that business as held for sale. Accordingly, we have recorded a deferred tax asset of \$51 million for the difference between the net book value of the business and the tax basis of that business. The Company is accounting for the tax impacts related to the sale of the Personal Care business as a stock investment and therefore recognizing the tax benefit for recording the book/tax basis difference and the net book value adjustment as part of continuing operations. Both of these items impacted the effective tax rate in 2020.

The Company has assessed the value of the deferred tax asset related to the basis difference described above, which is expected to be a capital loss for tax purposes upon the completion of the sale, and determined that the Company is not likely to realize a full benefit from the asset. As such, the Company has recorded a valuation allowance of \$44 million associated with this deferred tax asset. During the year, the Company also analyzed its existing Arkansas research and development credits and determined an additional valuation allowance of \$3 million should be recorded since it is expected some of the credits will expire un-utilized. These amounts unfavorably impacted the effective tax rate in 2020.

During 2020, the Company generated a U.S. tax net operating loss which, in accordance with the Coronavirus Aid, Relief, and Economic Security (CARES) Act will be carried back to 2015. In 2015, the US federal tax rate was 35%, versus the current rate of 21%. Therefore, the Company recorded an additional tax benefit of \$5 million related to the tax rate benefit of the loss which favorably impacted the effective tax rate in 2020.

The Company recorded \$17 million of tax credits, mainly research and experimentation credits, which favorably impacted the effective tax rate in 2020. Since the Company has a tax loss in 2020, the tax credits will be carried forward and are expected to be utilized in future years.

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NOTE 10. INCOME TAXES (CONTINUED)

As a result of the deemed mandatory repatriation tax requirement of the U.S. Tax Reform, the Company has taxed its undistributed foreign earnings as of December 31, 2017, at reduced tax rates. After completing its evaluation of the U.S. Tax Reform's impact on its business operations, the Company has determined that it is no longer indefinitely reinvested in these undistributed foreign earnings as well as foreign earnings after December 31, 2017. As such, as of December 31, 2020, the Company has recorded a deferred tax liability of \$11 million (\$12 million as of December 31, 2019) for foreign withholding tax and various state income taxes associated with future repatriation of these earnings. This additional \$1 million tax benefit impacted the effective tax rate for 2020 (\$2 million tax expense for 2019 and \$10 million tax expense for 2018).

The Company recorded \$18 million of tax credits in 2019 (\$18 million in 2018), mainly research and experimentation credits, which favorably impacted the effective tax rate. Arkansas legislation changes were passed in 2019 which reduced the state tax rate and changed how the apportionment factor is calculated. This resulted in a deferred state tax benefit of \$4 million for the Company. Additionally, a valuation allowance of \$5 million was recorded on state attributes the Company does not expect to utilize before they expire.

On December 22, 2017, the U.S. Tax Reform was signed into law. The U.S. Tax Reform significantly changed U.S. tax law for businesses by, among other things, lowering the maximum federal corporate income tax rate from 35% to 21% effective January 1, 2018, implementing a territorial tax system, and imposing a one-time deemed repatriation tax on accumulated foreign earnings. Additionally, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the U.S. Tax Reform. December 22, 2018 marked the end of the measurement period for purposes of SAB 118. As such, the Company completed its analysis, including currently available legislative updates, and recorded an additional tax benefit of \$13 million for the year ended December 31, 2018. Of this benefit, \$7 million related to adjustments to the deemed mandatory repatriation tax and \$6 million related to the revaluation of the Company's net deferred tax liabilities. The \$6 million benefit for the revaluation of the net deferred tax liabilities is included in the "Tax rate changes" above, along with \$3 million of additional tax benefits relating to 2018 law changes in Sweden and various U.S. states.

Deferred tax assets and liabilities are based on tax rates that are expected to be in effect in future periods when deferred items are expected to reverse. Changes in tax rates or tax laws affect the expected future benefit or expense. The effect of such changes that occurred during each of the last three fiscal years is included in "Tax rate changes" disclosed under the effective income tax rate reconciliation shown above.

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NOTE 10. INCOME TAXES (CONTINUED)

DEFERRED TAX ASSETS AND LIABILITIES

The tax effects of significant temporary differences representing deferred tax assets and liabilities at December 31, 2020 and December 31, 2019 are comprised of the following:

	December 31, 2020	December 31, 2019
	\$	\$
Accounting provisions	31	27
Net operating loss carryforwards and other deductions	56	9
Pension and other employee future benefit plans	19	16
Inventory	11	12
Tax credits	41	23
Other	12	7
Gross deferred tax assets	170	94
Valuation allowance	(64)	(17)
Net deferred tax assets	106	77
Property, plant and equipment	(367)	(386)
Intangible assets	(6)	(6)
Other	(31)	(17)
Total deferred tax liabilities	(404)	(409)
Net deferred tax liabilities	(298)	(332)
Included in:		
Deferred income taxes and other	(298)	(332)
Total	(298)	(332)

At December 31, 2020, the Company had no federal net operating loss carryforwards, however, the Company has recorded a tax asset related to the book/tax basis difference of the Assets Held for Sale which is expected to be a capital loss once the sale is completed. The Company also has other foreign net operating losses of \$4 million at December 31, 2020, which may be carried forward indefinitely.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which temporary differences become deductible.

The Company evaluates the realization of deferred tax assets on a quarterly basis. Evaluating the need for an amount of a valuation allowance for deferred tax assets often requires significant judgment. All available evidence, both positive and negative, is considered when determining whether, based on the weight of that evidence, a valuation allowance is needed. Specifically, the Company evaluated the following items:

- Historical income / (losses) – particularly the most recent three-year period
- Reversals of future taxable temporary differences
- Projected future income / (losses)
- Tax planning strategies
- Divestitures

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NOTE 10. INCOME TAXES (CONTINUED)

Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets, with the following exceptions:

- US state tax credits (\$13 million valuation allowance)
- Tax basis difference on assets held for sale (\$44 million valuation allowance)
- Foreign loss carryforwards (\$7 million valuation allowance)

In 2020, the valuation allowance unfavorably impacted tax expense and the effective tax rate by \$47 million (2019 – \$5 million).

As of December 31, 2020, the Company has recorded a deferred tax liability of \$11 million (\$12 million for 2019) for foreign withholding tax and various state income taxes associated with the repatriation of earnings subject to the repatriation tax as well as future repatriation of its unremitted foreign earnings. With the exception of the Personal Care business which is being shown as held for sale, the Company has not provided for deferred taxes on the outside basis differences in its investments in its foreign subsidiaries that are unrelated to unremitted earnings as it estimates that this deferred tax liability in combination with the repatriation tax amount, covers all tax liabilities with foreign investments to date. The Company is indefinitely reinvested in the outside basis differences of its remaining foreign subsidiaries.

ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

At December 31, 2020, the Company had gross unrecognized tax benefits of approximately \$23 million (\$28 million and \$28 million for 2019 and 2018, respectively). If recognized in 2020, these tax benefits would impact the effective tax rate. These amounts represent the gross amount of exposure in individual jurisdictions and do not reflect any additional benefits expected to be realized if such positions were sustained, such as federal deduction that could be realized if an unrecognized state deduction was not sustained. These amounts are included in Deferred income taxes and other on the Consolidated Balance Sheets.

	<u>December 31, 2020</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
	\$	\$	\$
Balance at beginning of year	28	28	27
Additions based on tax positions related to current year	1	3	3
Additions for tax positions of prior years	1	2	3
Expirations of statutes of limitations	(7)	(6)	(6)
Interest	—	1	1
Balance at end of year	<u>23</u>	<u>28</u>	<u>28</u>

The Company recorded less than \$1 million of accrued interest associated with unrecognized tax benefits for the period ending December 31, 2020 (\$1 million for 2019 and \$1 million for 2018). The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits as a component of tax expense. The Company believes it is reasonably possible that up to \$4 million of its unrecognized benefits may be recognized by December 31, 2021. However, the amount and timing of the recognition of these benefits is subject to some uncertainty.

The major jurisdictions where the Company and its subsidiaries will file tax returns for 2020 are Canada and the U.S. The Company will file one consolidated U.S. federal income tax return. The Company and its subsidiaries will also file returns in various other countries in Europe and Asia as well as various U.S. states and Canadian provinces. At December 31, 2020, the Company's subsidiaries are subject to foreign federal income tax examinations for the tax years 2013 through 2019, with federal years prior to 2017 being closed from a cash tax liability standpoint in the U.S. The Company does not anticipate that adjustments stemming from these audits would result in a significant change to the results of its operations and financial condition.

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NOTE 11.

INVENTORIES

The following table presents the components of inventories:

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
	\$	\$
Work in process and finished goods	321	325
Raw materials	107	119
Operating and maintenance supplies	202	219
	<u>630</u>	<u>663</u>

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NOTE 12.

PROPERTY, PLANT AND EQUIPMENT

The following table presents the components of property, plant and equipment:

	Range of useful lives (in years)	December 31, 2020 \$	December 31, 2019 \$
Machinery and equipment	3 – 20	7,617	7,436
Buildings and improvements	10 – 40	962	944
Timberlands	(1)	195	191
Assets under construction	—	87	135
		8,861	8,706
Less: Accumulated depreciation		(6,838)	(6,483)
		2,023	2,223

(1) Amortization is calculated using the unit of production method.

Depreciation expense related to property, plant and equipment for the year ended December 31, 2020 was \$222 million (2019 – \$230 million; 2018 – \$240 million).

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NOTE 13.

LEASES

In the normal course of business, the Company enters into operating and finance leases mainly for manufacturing and warehousing facilities, corporate offices, motor vehicles, mobile equipment and manufacturing equipment.

While the Company's lease payments are generally fixed over the lease term, some leases may include price escalation terms that are fixed at the lease commencement date.

The Company has remaining lease terms ranging from 1 year to 12 years, some of which may include options to extend the leases for up to 10 years, and some of which may include options to terminate the leases within 1 year.

The components of lease expense were as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
	\$	\$
Operating lease expense	22	21
Finance lease expense:		
Amortization of right-of-use assets	1	—
Interest on lease liabilities	—	—
Total finance lease expense	1	—

For the year ended December 31, 2018, total operating lease expense amounted to \$19 million.

Supplemental cash flow information related to leases was as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
	\$	\$
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	23	21
Operating cash flows from finance leases	1	1
Financing cash flows from finance leases	1	1
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	12	24
Finance leases	—	—

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NOTE 13. LEASES (CONTINUED)

Supplemental balance sheet information related to leases was as follows:

	December 31, 2020 \$	December 31, 2019 \$
Operating leases		
Operating leases right-of-use assets	59	58
Lease liabilities due within one year	20	18
Operating lease liabilities	50	40
	<u>70</u>	<u>58</u>
Finance leases		
Property, plant and equipment	11	9
Accumulated depreciation	(3)	(2)
	<u>8</u>	<u>7</u>
Long-term debt due within one year	1	1
Long-term debt	9	8
	<u>10</u>	<u>9</u>
Weighted-average remaining lease term		
Operating leases	4.7 years	3.8 years
Finance leases	8.8 years	10.4 years
Weighted-average discount rate		
Operating leases	4.4%	4.4%
Finance leases	6.1%	7.0%

Maturities of lease liabilities at December 31, 2020 were as follows:

	Operating leases \$
2021	20
2022	18
2023	15
2024	10
2025	6
Thereafter	9
Total lease payments	<u>78</u>
Less: Imputed interest	8
Total lease liabilities	<u>70</u>

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NOTE 14.

INTANGIBLE ASSETS

The following table presents the components of intangible assets:

	Estimated useful lives (in years)	December 31, 2020			December 31, 2019		
		Gross carrying amount	Accumulated amortization	Net	Gross carrying amount	Accumulated amortization	Net
		\$	\$	\$	\$	\$	\$
Definite-lived intangible assets subject to amortization							
Water rights	40	3	(1)	2	3	(1)	2
Customer relationships	20 – 30	24	(10)	14	24	(9)	15
Technology	7 – 20	8	(5)	3	8	(5)	3
Non-Compete	9	1	(1)	—	1	(1)	—
		<u>36</u>	<u>(17)</u>	<u>19</u>	<u>36</u>	<u>(16)</u>	<u>20</u>
Indefinite-lived intangible assets not subject to amortization							
Water rights		4	—	4	4	—	4
License rights		6	—	6	6	—	6
Total		<u>46</u>	<u>(17)</u>	<u>29</u>	<u>46</u>	<u>(16)</u>	<u>30</u>

Amortization expense related to intangible assets for the year ended December 31, 2020 was \$1 million (\$1 million in 2019 and 2018, respectively).

Amortization expense for the next five years related to intangible assets is expected to be as follows:

	2021	2022	2023	2024	2025
	\$	\$	\$	\$	\$
Amortization expense related to intangible assets	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

The Company performed its annual impairment test on its indefinite-lived intangible assets at October 1, 2020, 2019 and 2018, using a quantitative approach, except for the license rights and water rights, where the Company used a qualitative approach, and determined that the estimated fair values of its indefinite-lived intangible assets exceeded their carrying amounts. No impairment charge was recorded for indefinite-lived intangible assets during 2020, 2019 or 2018.

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NOTE 15.

OTHER ASSETS

The following table presents the components of other assets:

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
	\$	\$
Pension asset - defined benefit pension plans (Note 7)	152	141
Investment tax credits receivable	4	5
Unamortized debt issuance costs	3	3
Derivative financial instruments (Note 23)	17	4
Equity swap contracts (Note 23)	2	—
Investments and advances	6	5
Other	5	5
	<u>189</u>	<u>163</u>

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NOTE 16.

CLOSURE AND RESTRUCTURING COSTS AND IMPAIRMENT OF LONG-LIVED ASSETS

At December 31, 2020, the Company's total provision for the withdrawal liabilities of its U.S. multiemployer plans was \$42 million.

Cost reduction program

The Company is implementing a cost savings program. As part of this program, on August 7, 2020, the Company announced the permanent closure of the uncoated freesheet manufacturing at the Kingsport, Tennessee and Port Huron, Michigan mills, the remaining paper machine at the Ashdown, Arkansas mill and the converting center in Ridgefields, Tennessee. These actions will reduce the Company's annual uncoated freesheet paper capacity by approximately 721,000 short tons, and will result in a workforce reduction of approximately 750 employees. The Kingsport and Ashdown paper machines, which have been idled since April 2020, did not recommence operations. The Ridgefields converting center ceased operations at the end of the third quarter of 2020, while the Port Huron mill is expected to shut down by the end of the first quarter of 2021.

The Company plans to enter the linerboard market with the conversion of the Kingsport paper machine. Domtar estimates the conversion cost to be between \$300 and \$350 million. As a result of the decision to change the nature and use of the Kingsport, Tennessee mill, the carrying amount of the remaining assets of the Kingsport mill has been tested for impairment in the third quarter and resulted in no additional impairment charge. The carrying amount of these assets was approximately \$80 million at September 30, 2020. The Company is also completing the conversion of the Ashdown mill to 100% softwood and fluff pulp, which is requiring \$15 to \$20 million of capital investments and is expected to be completed within six to nine months. For the year ended December 31, 2020, the Company recorded \$136 million of accelerated depreciation under Impairment of long-lived assets on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss). Additionally, the Company recorded \$33 million of severance and termination costs, \$31 million of inventory obsolescence, \$12 million of environmental costs, \$2 million of pension curtailment loss, \$2 million of pension settlement loss and \$18 million of licenses fees, write-offs and other costs, under Closure and restructuring costs on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss).

Ashdown, Arkansas mill and Port Huron, Michigan mill

On September 27, 2019, the Company's Board of Directors approved the decision to permanently shut down two paper machines, which was announced on October 3, 2019. The closures took place at the Ashdown, Arkansas pulp and paper mill and the Port Huron, Michigan paper mill.

For the year ended December 31, 2019, the Company recorded \$32 million of accelerated depreciation under Impairment of long-lived assets and \$1 million of accelerated depreciation under Depreciation and amortization, on the Consolidated Statement of Earnings (Loss) and Comprehensive Income (Loss). Additionally, the Company recorded \$3 million of severance and termination costs, \$4 million of inventory obsolescence, and \$2 million of other costs, under Closure and restructuring costs.

Concurrently, with the Ashdown paper machine closure and related workforce reduction, management negotiated a voluntary early retirement program to reduce costs and put the mill in a stronger cost position in the long-term. The Company additionally recorded \$13 million of severance and termination costs under Closure and restructuring costs.

Other costs

During 2020 other costs related to previous and ongoing closures and restructuring included \$1 million of severance and termination costs (2019 and 2018 – nil).

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NOTE 16. CLOSURE AND RESTRUCTURING COSTS AND IMPAIRMENT OF LONG-LIVED ASSETS (CONTINUED)

The following tables provide the components of closure and restructuring costs:

	Year ended December 31, 2020		
	Pulp and Paper	Corporate	Total
	\$	\$	\$
Severance and termination costs	33	1	34
Inventory write-down (storeroom, spare parts and other)	31	—	31
Environmental costs	12	—	12
Pension curtailment and settlement charges	4	—	4
Licenses fees, write-offs and other costs	16	2	18
Closure and restructuring costs	<u>96</u>	<u>3</u>	<u>99</u>

	Year ended December 31, 2019	
	Pulp and Paper	Total
	\$	\$
Severance and termination costs	16	16
Inventory write-down	4	4
Other costs	2	2
Closure and restructuring costs	<u>22</u>	<u>22</u>

The following table provides the activity in the closure and restructuring liability:

	December 31, 2020	December 31, 2019
	\$	\$
Balance at beginning of year	12	2
Additions	48	12
Payments	(32)	(1)
Reversal	—	(1)
Balance at end of year ⁽¹⁾	<u>28</u>	<u>12</u>

(1) At December 31, 2020 \$22 million is shown in Trade and other payables (see Note 17) and \$6 million is shown in Other liabilities and deferred credits (see Note 20).

The \$28 million provision is comprised of severance and termination costs, of which \$9 million and \$6 million relate to the Pulp and Paper business and Corporate, respectively and licenses fees and other costs of \$13 million relate to Corporate.

Closure and restructuring costs are based on management's best estimates at December 31, 2020. Actual costs may differ from these estimates due to subsequent developments such as the results of environmental studies, the ability to find a buyer for assets set to be dismantled and demolished and other business developments. As such, additional costs and further impairment charges may be required in future periods.

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NOTE 17.

TRADE AND OTHER PAYABLES

The following table presents the components of trade and other payables:

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
	\$	\$
Trade payables	260	310
Payroll-related accruals	104	99
Accrued interest	16	16
Payables on capital projects	13	27
Rebate accruals	44	58
Liability - pension and other post-retirement benefit plans (Note 7)	5	5
Liability - multiemployer plan withdrawal	2	2
Provision for environment and other asset retirement obligations (Note 22)	10	8
Closure and restructuring costs liability (Note 16)	22	12
Derivative financial instruments (Note 23)	3	11
Dividends payable (Note 21)	—	26
Stock-based compensation - liability awards (Note 23)	5	6
	<u>484</u>	<u>580</u>

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NOTE 18.

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT

The following table presents the changes in Accumulated other comprehensive loss by component⁽¹⁾ for the periods ended December 31, 2020 and 2019.

	Net derivative gains (losses) on cash flow hedges \$	Pension items ⁽²⁾ \$	Post-retirement benefit items ⁽²⁾ \$	Foreign currency items \$	Total \$
Balance at December 31, 2018	(24)	(231)	11	(223)	(467)
Natural gas swap contracts	(10)	N/A	N/A	N/A	(10)
Currency options	5	N/A	N/A	N/A	5
Foreign exchange forward contracts	16	N/A	N/A	N/A	16
Net gain	N/A	1	1	N/A	2
Foreign currency items	N/A	N/A	N/A	21	21
Other comprehensive income before reclassifications	11	1	1	21	34
Amounts reclassified from Accumulated other comprehensive loss	8	33	(1)	—	40
Net current period other comprehensive income	19	34	—	21	74
Balance at December 31, 2019	(5)	(197)	11	(202)	(393)
Natural gas swap contracts	1	N/A	N/A	N/A	1
Currency options	3	N/A	N/A	N/A	3
Foreign exchange forward contracts	23	N/A	N/A	N/A	23
Net loss	N/A	(21)	(1)	N/A	(22)
Foreign currency items	N/A	N/A	N/A	63	63
Other comprehensive income (loss) before reclassifications	27	(21)	(1)	63	68
Amounts reclassified from Accumulated other comprehensive loss	12	11	(2)	—	21
Net current period other comprehensive income (loss)	39	(10)	(3)	63	89
Balance at December 31, 2020	34	(207)	8	(139)	(304)

(1) All amounts are after tax. Amounts in parentheses indicate losses.

(2) The projected benefit obligation is actuarially determined on an annual basis as of December 31.

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NOTE 18. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT (CONTINUED)

The following table presents reclassifications out of Accumulated other comprehensive loss:

Details about Accumulated other comprehensive loss components	Amount reclassified from Accumulated other comprehensive loss		
	Year ended December 31, 2020 \$	Year ended December 31, 2019 \$	Year ended December 31, 2018 \$
Net derivative (losses) gains on cash flow hedge			
Natural gas swap contracts (1)	(10)	(4)	2
Currency options and forwards (1)	(6)	(7)	1
Total before tax	(16)	(11)	3
Tax benefit (expense)	4	3	(1)
Net of tax	(12)	(8)	2
Amortization of defined benefit pension items			
Amortization of net actuarial loss (2)(3)	(12)	(40)	(8)
Amortization of prior year service cost (2)	(2)	(5)	(5)
Total before tax	(14)	(45)	(13)
Tax benefit	3	12	3
Net of tax	(11)	(33)	(10)
Amortization of other post-retirement benefit items			
Amortization of net actuarial gain (2)	1	1	1
Amortization of prior year service credit (2)	1	1	—
Total before tax	2	2	1
Tax expense	—	(1)	—
Net of tax	2	1	1

- (1) These amounts are included in Cost of sales in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss).
(2) These amounts are included in the computation of net periodic benefit cost (see Note 7 "Pension Plans and Other Post-Retirement Benefit Plans" for more details).
(3) Includes a non-cash pension settlement charge of \$2 million in 2020 (2019 – \$30 million; 2018 – nil).

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NOTE 19.

LONG-TERM DEBT

	<u>Maturity</u>	<u>Par Amount</u> \$	<u>Currency</u>	<u>December 31, 2020</u> \$	<u>December 31, 2019</u> \$
Unsecured notes					
4.4% Notes	2022	300	US	300	300
6.25% Notes	2042	250	US	249	249
6.75% Notes	2044	250	US	250	250
Term Loan	2025	—	US	294	—
Revolving Credit Facility	2023	—	US	—	80
Securitization	2021	—	US	—	55
Finance lease obligations and other	2021 - 2032			10	9
				1,103	943
Less: Unamortized debt issuance costs				6	5
Less: Due within one year				13	1
				1,084	937

Principal long-term debt repayments, including finance lease obligations, in each of the next five years will amount to:

	<u>Long-term debt</u> \$	<u>Finance leases and other</u> \$
2021	12	1
2022	312	2
2023	12	2
2024	12	2
2025	246	1
Thereafter	500	5
	1,094	13
Less: Amounts representing interest	—	3
Total payments	1,094	10

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NOTE 19. LONG-TERM DEBT (CONTINUED)

TERM LOAN

On May 5, 2020, the Company entered into a \$300 million Term Loan Agreement (the "Term Loan Agreement") that matures on May 5, 2025. The Company used borrowings under the Term Loan Agreement to repay other debt and to pay related fees and expenses. Borrowings under the Term Loan Agreement bear interest at LIBOR plus a margin of 2.5% and require principal repayments of \$3 million each quarter. All borrowings under the Term Loan are unsecured. Certain domestic subsidiaries of the Company guarantee the obligations arising under the Term Loan Agreement. The Term Loan Agreement contains customary covenants, including two financial covenants: (i) an interest coverage ratio, as defined in the Term Loan Agreement, that must be maintained at a level of not less than 3 to 1 and (ii) a leverage ratio, as defined in the Term Loan Agreement that must be maintained at a level of not greater than 3.75 to 1.

At December 31, 2020, the Company was in compliance with these financial covenants and had \$294 million of borrowings outstanding under the Term Loan Agreement (December 31, 2019 – nil).

REVOLVING CREDIT FACILITY

The Company has an unsecured \$700 million revolving credit facility (the "Credit Agreement") with certain domestic and foreign banks that matures on August 22, 2023. The maturity date of the facility may be extended by one year and the lender commitments may be increased by up to \$400 million, subject to lender approval and customary requirements. Borrowings by the Company under the Credit Agreement are guaranteed by its significant domestic subsidiaries. Borrowings by certain foreign subsidiaries under the Credit Agreement are guaranteed by the Company, the Company's significant domestic subsidiaries and certain of the Company's significant foreign subsidiaries.

Borrowings under the Credit Agreement bear interest at LIBOR, EURIBOR, Canadian bankers' acceptance or prime rate, as applicable, plus a margin linked to the Company's credit rating. In addition, the Company pays facility fees quarterly at rates dependent on the Company's credit ratings. The Financial Conduct Authority in the United Kingdom plans to phase out LIBOR by the end of 2021. The Company does not anticipate a significant impact to its financial position from the planned phase out of LIBOR.

The Credit Agreement contains customary covenants and events of default for transactions of this type, including two financial covenants: (i) an interest coverage ratio, as defined in the Credit Agreement, that must be maintained at a level of not less than 3 to 1 and (ii) a leverage ratio, as defined in the Credit Agreement, that must be maintained at a level of not greater than 3.75 to 1 (or 4.00 to 1 upon the occurrence of certain qualifying material acquisitions). At December 31, 2020, the Company was in compliance with these financial covenants, and had no borrowings and \$54 million of letters of credit outstanding under this facility (December 31, 2019 – \$80 million and nil).

RECEIVABLES SECURITIZATION

The Company has a \$150 million receivables securitization facility that matures in November 2021. This facility provides additional liquidity to the Company to fund its operations or issue letters of credit. The costs under the program vary based on changes in interest rates and amounts utilized.

Sales of receivables under this program are accounted for as secured borrowings. The program consists of the ongoing sale of most of the receivables of its domestic subsidiaries to a bankruptcy remote consolidated subsidiary which, in turn, transfers a senior beneficial interest in them to a special purpose entity managed by a financial institution for multiple sellers of receivables to support borrowings or the issue of letters of credit by the Company.

The program contains certain termination events, which include, but are not limited to, matters related to receivable performance, certain defaults occurring under the Credit Agreement, or the failure by Domtar to satisfy material obligations.

At December 31, 2020, there were no borrowings and no letters of credit outstanding under this facility (2019 – \$55 million and \$53 million, respectively). At December 31, 2020, the Company had \$111 million unused and available under this facility.

In 2020, a net charge of \$1 million (2019 – \$2 million; 2018 – \$1 million) resulted from the program described above and was included in Interest expense, net in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss).

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NOTE 20.

OTHER LIABILITIES AND DEFERRED CREDITS

The following table presents the components of other liabilities and deferred credits:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	\$	\$
Liability - other post-retirement benefit plans (Note 7)	62	58
Pension liability - defined benefit pension plans (Note 7)	124	101
Pension liability - multiemployer plan withdrawal	40	42
Long-term income taxes payable	9	9
Closure and restructuring costs liability (Note 16)	6	—
Provision for environmental and asset retirement obligations (Note 22)	37	27
Stock-based compensation - liability awards (Note 23)	11	16
Derivative financial instruments (Note 23)	3	8
Worker's compensation and other related accruals	14	5
Other	8	3
	<u>314</u>	<u>269</u>

ASSET RETIREMENT OBLIGATIONS

The asset retirement obligations are principally linked to landfill capping obligations and demolition of certain abandoned buildings. At December 31, 2020, Domtar estimated the net present value of its asset retirement obligations to be \$14 million (2019 – \$13 million); the present value is based on probability weighted undiscounted cash outflows of \$59 million (2019 – \$58 million). The majority of the asset retirement obligations are estimated to be settled prior to December 31, 2060. Domtar's credit adjusted risk-free rates were used to calculate the net present value of the asset retirement obligations. The rates used vary between 4.7% and 12.0%, based on the prevailing rate at the moment of recognition of the liability and on its settlement period.

The following table reconciles Domtar's asset retirement obligations:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	\$	\$
Asset retirement obligations, beginning of year	13	12
Accretion expense	1	1
Asset retirement obligations, end of year	<u>14</u>	<u>13</u>

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NOTE 21.

SHAREHOLDERS' EQUITY

DIVIDENDS

During 2020, the Company declared one quarterly dividend of \$0.455 per share, to holders of the Company's common stock. Total dividends of approximately \$25 million were paid on April 15, 2020 to shareholders of record as of April 2, 2020.

During 2019, the Company declared one quarterly dividend of \$0.435 and three quarterly dividends of \$0.455 per share, to holders of the Company's common stock. Dividends aggregating \$28 million, \$28 million, \$27 million and \$26 million were paid on April 15, 2019, July 16, 2019, October 15, 2019 and January 15, 2020, respectively, to shareholders of record as of April 2, 2019, July 2, 2019, October 2, 2019 and January 2, 2020, respectively.

STOCK REPURCHASE PROGRAM

The Company's Board of Directors has authorized a stock repurchase program ("the Program") of up to \$1.6 billion. At December 31, 2020, the Company had approximately \$344 million of remaining availability under the Program. The Company is authorized to repurchase, from time to time, shares of its outstanding common stock on the open market or in privately negotiated transactions. The timing and amount of stock repurchases will depend on a variety of factors, including the market conditions as well as corporate and regulatory considerations. The Program may be suspended, modified or discontinued at any time, and the Company has no obligation to repurchase any amount of its common stock under the Program. The Program has no set expiration date. The Company repurchases its common stock in part to reduce the dilutive effects of stock options and awards, and to improve shareholders' returns.

The Company makes open market purchases of its common stock using general corporate funds. Additionally, the Company may enter into structured stock repurchase agreements with large financial institutions using general corporate funds in order to lower the average cost to acquire shares. The agreements would require the Company to make up-front payments to the counterparty financial institutions, which would result in either the receipt of stock at the beginning of the term of the agreements followed by a share adjustment at the maturity of the agreements, or the receipt of either stock or cash at the maturity of the agreements, depending upon the price of the stock.

During 2020, the Company repurchased 1,798,306 shares at an average price of \$33.05 for a total cost of \$59 million.

During 2019, the Company repurchased 6,220,658 shares at an average price of \$35.29 for a total cost of \$219 million.

CAPITAL RETURN PROGRAM

On May 5, 2020, due to the unprecedented market conditions and uncertainty caused by COVID-19, the Company suspended the payment of its regular quarterly dividend and stock repurchase program in order to preserve cash and provide additional flexibility in the current environment.

On February 11, 2021, the Company announced that it will resume its stock repurchase program. The Board of Directors will continue to evaluate the Company's capital return program based upon customary considerations, including market conditions.

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NOTE 21. SHAREHOLDERS' EQUITY (CONTINUED)

The authorized stated capital consists of the following:

PREFERRED SHARES

The Company is authorized to issue 20 million preferred shares, par value \$0.01 per share. The Board of Directors of the Company will determine the voting powers (if any) of the shares, and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares at the time of issuance. No preferred shares were outstanding at December 31, 2020 or December 31, 2019.

COMMON STOCK

The Company is authorized to issue two billion shares of common stock, par value \$0.01 per share. Holders of the Company's common stock are entitled to one vote per share.

The changes in the number of outstanding common stock and their aggregate stated value during the years ended December 31, 2020 and December 31, 2019, were as follows:

	December 31, 2020		December 31, 2019	
	Number of shares	\$	Number of shares	\$
Common stock				
Balance at beginning of year	56,880,910	1	62,914,569	1
Shares issued				
Treasury stock (1)	(1,686,372)	—	(6,033,659)	—
Balance at end of year	<u>55,194,538</u>	<u>1</u>	<u>56,880,910</u>	<u>1</u>

- (1) During 2020, the Company repurchased 1,798,306, and issued 111,934 shares out of Treasury stock in conjunction with the exercise of stock-based compensation awards.

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NOTE 22.

COMMITMENTS AND CONTINGENCIES

ENVIRONMENTAL MATTERS

The Company is subject to environmental laws and regulations enacted by federal, provincial, state and local authorities. The Company may also incur substantial costs in relation to enforcement actions (including orders requiring corrective measures, installation of pollution control equipment or other remedial actions) as a result of violations of, or liabilities under, environmental laws and regulations applicable to its past and present properties. The Company's ongoing efforts to identify potential environmental concerns that may be associated with such properties may result in additional environmental costs and liabilities which cannot be reasonably estimated at this time.

In 2020, the Company's operating expenses for environmental matters amounted to \$62 million (2019 – \$71 million; 2018 – \$68 million).

The Company made capital expenditures for environmental matters of \$4 million in 2020 (2019 – \$19 million; 2018 – \$8 million).

A former owner of the Company's Dryden, Ontario manufacturing site (the "Dryden Property") operated a chlor-alkali plant during the 1960s and 1970s, during which time mercury and other pollutants were used and discharged into the natural environment. In conjunction with the sale and redevelopment of the Dryden Property, the Province of Ontario (the "Province") provided a broad indemnity (the "Indemnity") in 1985 to the then purchaser of the Dryden Property and its successors and assigns with respect to the discharge of any pollutant, including mercury, by the historical operators of the Dryden Property. This Indemnity subsequently was assigned to the Company in connection with its 2007 purchase of the Dryden Property.

As the current owner of the Dryden Property, the Company is actively engaged with the Province with respect to the management of the historical contamination.

The Province issued a Director's order under environmental laws to certain prior owners of the Dryden Property in connection with a nearby waste disposal site that has never been owned by the Company. The Director's order required certain work to be conducted by those prior owners. The prior owners asserted that the Indemnity covered the work required by the Director's order. Following extensive litigation, the Supreme Court of Canada found, among other things, that the Indemnity covered third-party claims, but not first-party claims, such as the Director's order.

In the future, the Province may challenge whether the Company has the benefit of the Indemnity. In addition to the Indemnity, the Company has other recourses relating to the historical contamination.

The situation involving the historical contamination is continuing to develop, and the Company cannot predict its outcome. While the Company currently does not believe that it will be required to incur costs that would have a material impact on its results of operations or financial condition, there is no certainty that this is in fact the case.

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NOTE 22. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The following table reflects changes in the reserve for environmental remediation and asset retirement obligations:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
	\$	\$
Balance at beginning of year	35	37
Additions and other changes	15	4
Environmental spending	(3)	(7)
Effect of foreign currency exchange rate change	—	1
Balance at end of year (1)	<u>47</u>	<u>35</u>

(1) At December 31, 2020, \$10 million is shown in Trade and other payables (see Note 17) and \$37 million is shown in Other liabilities and deferred credits (see Note 20).

At December 31, 2020, anticipated undiscounted payments in each of the next five years are as follows:

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Thereafter</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$	\$
Environmental provision and asset retirement obligations	<u>10</u>	<u>2</u>	<u>2</u>	<u>6</u>	<u>2</u>	<u>70</u>	<u>92</u>

The U.S. Environmental Protection Agency (the “EPA”) and/or various state agencies have notified the Company that it may be a potentially responsible party under the Comprehensive Environmental Response Compensation and Liability Act, commonly known as “Superfund”, and similar state laws with respect to other hazardous waste sites as to which no proceedings have been instituted against the Company. The Company continues to take remedial action under its Care and Control Program at its former wood preserving sites, and at a number of operating sites, due to possible soil, sediment or groundwater contamination.

CONTINGENCIES

In the normal course of operations, the Company becomes involved in various legal actions mostly related to contract disputes, patent infringements, environmental and product warranty claims, and labor issues. While the final outcome with respect to actions outstanding or pending at December 31, 2020, cannot be predicted with certainty, it is management’s opinion that their resolution will not have a material adverse effect on the Company’s financial position, results of operations or cash flows.

OTHER COMMERCIAL COMMITMENTS

The Company has commitments to purchase property, plant and equipment, roundwood, wood chips, gas and certain chemicals. Purchase orders in the normal course of business are excluded from the table below. Any amounts for which the Company is liable under purchase orders are reflected in the Consolidated Balance Sheets as Trade and other payables. Minimum future payments under these other commercial commitments, determined at December 31, 2020, were as follows:

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Thereafter</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$	\$
Other commercial commitments	<u>155</u>	<u>10</u>	<u>6</u>	<u>6</u>	<u>—</u>	<u>2</u>	<u>179</u>

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NOTE 22. COMMITMENTS AND CONTINGENCIES (CONTINUED)

INDEMNIFICATIONS

In the normal course of business, the Company offers indemnifications relating to the sale of its businesses and real estate. In general, these indemnifications may relate to claims from past business operations, compliance with laws, the failure to abide by covenants and the breach of representations and warranties included in the sales agreements. Typically, such representations and warranties relate to taxation, environmental, product and employee matters. The terms of these indemnification agreements are generally for an unlimited period of time. At December 31, 2020, the Company is unable to estimate the potential maximum liabilities for these types of indemnification guarantees as the amounts are contingent upon the outcome of future events, the nature and likelihood of which cannot be reasonably estimated at this time. Accordingly, no provision has been recorded. These indemnifications have not yielded a significant expense in the past.

Pension Plans

The Company has indemnified and held harmless the trustees of its pension funds, and the respective officers, directors, employees and agents of such trustees, from any and all costs and expenses arising out of the performance of their obligations under the relevant trust agreements, including in respect of their reliance on authorized instructions from the Company or for failing to act in the absence of authorized instructions. These indemnifications survive the termination of such agreements. At December 31, 2020 the Company has not recorded a liability associated with these indemnifications, as it does not expect to make any payments pertaining to these indemnifications.

GENERAL RISK FACTORS

Climate change and air quality regulation

Various national and local laws and regulations relating to climate change have been established or are emerging in jurisdictions where the Company currently has, or may have in the future, manufacturing facilities or investments.

The EPA repealed the Clean Power Plan and replaced it with the “Affordable Clean Energy” (“ACE”) rule. The ACE rule was legally challenged in the U.S. Court of Appeals for the D.C. Circuit. The Court ruled the EPA wrongly understood the Clean Air Act and the ACE rule and its embedded repeal of the Clean Power Plan was vacated and sent back to the EPA for further consideration. Regardless of the outcome of the EPA’s further consideration, the Company does not expect to be disproportionately affected compared with other pulp and paper producers located in the states where the Company operates.

The province of Quebec has a greenhouse gases (“GHG”) cap-and-trade system with reduction targets. British Columbia has a carbon tax that applies to the purchase of fossil fuels within the province. The Company does not expect its facilities to be disproportionately affected by these measures compared to the other pulp and paper producers located in these provinces.

The Government of Canada has established a federal carbon pricing system in provinces that do not already impose a cost on carbon emissions. The Government of Canada has imposed its carbon pricing program for regulating GHG emissions in Ontario, which took effect on January 1, 2019. To reduce GHG emissions and recognize the unique circumstances of the province’s diverse economy, Ontario finalized its own GHG Emission Performance Standards regulation. The Ontario Government has been in discussions with the Canadian Government to replace the federal program in Ontario with its provincial program. The Canadian Government has accepted Ontario’s program as an alternative to the federal program and work to transition has begun. The Company does not expect to be disproportionately affected compared with other pulp and paper producers located in Ontario.

The EPA proposed to revise its Industrial Boiler Maximum Achievable Control Technology Standard (“MACT”), or Boiler MACT, in a notice published on August 24, 2020. The proposed rule is a response to two court decisions that remanded certain issues for further review by the EPA, and it includes revisions to 34 different emission limitations that could apply to some of the Company’s facilities. Although the EPA has indicated that a small number of facilities may need to reduce emissions further compared to the current limits, the Company does not expect its facilities to be disproportionately affected compared to other U.S. pulp and paper producers.

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NOTE 23.

DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT

HEDGING PROGRAMS

The Company is exposed to market risk, such as changes in currency exchange rates, commodity prices, interest rates and prices of the Company's common stock with regard to the Company's stock-based compensation program. To the extent the Company decides to manage the volatility related to these exposures, the Company may enter into various financial derivatives that are accounted for under the derivatives and hedging guidance. These transactions are governed by the Company's hedging policies which provide direction on acceptable hedging activities, including instrument type and acceptable counterparty exposure.

Upon inception, the Company formally documents the relationship between hedging instruments and hedged items. At inception and quarterly thereafter, the Company formally assesses whether the financial instruments used in hedging transactions are effective at offsetting changes in either the cash flow or the fair value of the underlying exposures. The Company does not hold derivative financial instruments for trading purposes.

CREDIT RISK

The Company is exposed to credit risk on accounts receivables from its customers. In order to reduce this risk, the Company reviews new customers' credit history before granting credit and conducts regular reviews of existing customers' credit performance. As of December 31, 2020, two customers located in the U.S. represented 15% or \$58 million, and 12% or \$46 million, respectively, of the Company's receivables (December 31, 2019 – two customers located in the U.S. represented 14% or \$66 million, and 13% or \$65 million, respectively).

The Company is exposed to credit risk in the event of non-performance by counterparties to its financial instruments. The Company attempts to minimize this exposure by entering into contracts with counterparties that are believed to be of high credit quality. Collateral or other security to support financial instruments subject to credit risk is usually not obtained. The credit standing of counterparties is regularly monitored.

INTEREST RATE RISK

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its cash and cash equivalents, bank indebtedness, revolving credit facility and securitization, term loan and long-term debt. The Company's objective in managing exposure to interest rate changes is to minimize the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. The Company may manage this interest rate exposure through the use of derivative instruments such as interest rate swap contracts, whereby it agrees to exchange the difference between fixed and variable interest amounts calculated by reference to an agreed upon notional principal amount.

EQUITY RISK

The Company is exposed to changes in share prices with regard to its stock-based compensation program. The Company manages its exposure through the use of derivative instruments such as equity swap contracts. In March 2020, the Company entered into a total return swap agreement covering 500,000 common shares maturing on March 4, 2022.

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NOTE 23. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

COST RISK

Cash flow hedges:

The Company is exposed to price volatility for raw materials and energy used in its manufacturing process. The Company manages its exposure to cost risk primarily through the use of supplier contracts. The Company purchases natural gas at the prevailing market price at the time of delivery. To reduce the impact on cash flow and earnings due to pricing volatility, the Company may utilize derivatives to fix the price of forecasted natural gas purchases. The changes in the fair value on qualifying instruments are included in Accumulated other comprehensive loss to the extent effective, and reclassified into Cost of sales in the period during which the hedged transaction affects earnings. Current contracts are used to hedge a portion of forecasted purchases over the next 36 months.

The following table presents the volumes under derivative financial instruments for natural gas contracts outstanding as of December 31, 2020 to hedge forecasted purchases:

Commodity	Notional contractual quantity under derivative contracts MMBtu ⁽¹⁾	Notional contractual value under derivative contracts (in millions of dollars)	Percentage of forecasted purchases under derivative contracts
Natural gas			
2021	9,270,000	\$ 27	37%
2022	9,270,000	\$ 25	35%
2023	4,210,000	\$ 12	15%

(1) MMBtu: Millions of British thermal units

The natural gas derivative contracts were effective as of December 31, 2020.

FOREIGN CURRENCY RISK

Cash flow hedges:

The Company has manufacturing operations in the United States and Canada. As a result, it is exposed to movements in the foreign currency exchange rate in Canada. Moreover, certain assets and liabilities are denominated in Canadian dollars and are exposed to foreign currency movements. Accordingly, the Company's earnings are affected by increases or decreases in the value of the Canadian dollar. The Company's risk management policy allows it to hedge a significant portion of its exposure to fluctuations in foreign currency exchange rates for periods up to three years. The Company may use derivative financial instruments (currency options and foreign exchange forward contracts) to mitigate its exposure to fluctuations in foreign currency exchange rates.

Derivatives are used to hedge forecasted purchases in Canadian dollars by the Company's Canadian subsidiary over the next 24 months. Such derivatives are designated as cash flow hedges. The changes in the fair value on qualifying instruments are included in Accumulated other comprehensive loss to the extent effective, and reclassified into Sales or Cost of sales in the period during which the hedged transaction affects earnings.

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NOTE 23. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

The following table presents the currency values under significant currency positions pursuant to currency derivatives outstanding as of December 31, 2020 to hedge forecasted purchases and sales:

Currency exposure hedged	Year of maturity	Notional contractual value	Percentage of forecasted net exposures under contracts	Average Protection rate	Average Obligation rate
CAD/USD	2021	781 CAD	82%	1 USD = 1.3359	1 USD = 1.3536
CAD/USD	2022	382 CAD	40%	1 USD = 1.3486	1 USD = 1.3486

The foreign exchange derivative contracts were effective as of December 31, 2020.

FAIR VALUE MEASUREMENT

The accounting standards for fair value measurements and disclosures establish a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement.

- 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.

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NOTE 23. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

The following tables present information about the Company's financial assets and financial liabilities measured at fair value on a recurring basis (except Long-term debt, see (b) below) at December 31, 2020 and December 31, 2019, in accordance with the accounting standards for fair value measurements and disclosures and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

Fair Value of financial instruments at:	December 31, 2020	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance sheet classification
	\$	\$	\$	\$	
Derivatives designated as hedging instruments:					
Asset derivatives					
Currency derivatives	31	—	31	—	(a) Prepaid expenses
Currency derivatives	16	—	16	—	(a) Other assets
Natural gas swap contracts	1	—	1	—	(a) Other assets
Total Assets	48	—	48	—	
Liabilities derivatives					
Currency derivatives	1	—	1	—	(a) Trade and other payables
Natural gas swap contracts	2	—	2	—	(a) Trade and other payables
Natural gas swap contracts	3	—	3	—	(a) Other liabilities and deferred credits
Total Liabilities	6	—	6	—	
Other Instruments:					
Stock-based compensation - liability awards	5	5	—	—	Trade and other payables
Stock-based compensation - liability awards	11	11	—	—	Other liabilities and deferred credits
Equity swap contracts	2	2	—	—	Other assets
Long-term debt	1,234	—	1,234	—	(b) Long-term debt

The net cumulative loss recorded in Accumulated other comprehensive loss relating to natural gas contracts is \$4 million at December 31, 2020, of which a loss of \$2 million will be recognized in Cost of sales upon maturity of the derivatives over the next 12 months at the then prevailing values, which may be different from those at December 31, 2020.

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NOTE 23. DERIVATIVES AND HEDGING ACTIVITIES AND FAIR VALUE MEASUREMENT (CONTINUED)

The net cumulative gain recorded in Accumulated other comprehensive loss relating to currency options and forwards hedging forecasted purchases is \$46 million at December 31, 2020, of which a gain of \$30 million will be recognized in Cost of sales or Sales upon maturity of the derivatives over the next 12 months at the then prevailing values, which may be different from those at December 31, 2020.

Fair Value of financial instruments at:	December 31, 2019	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance sheet classification
	\$	\$	\$	\$	
Derivatives designated as hedging instruments:					
Asset derivatives					
Currency derivatives	4	—	4	—	(a) Prepaid expenses
Currency derivatives	4	—	4	—	(a) Other assets
Total Assets	8	—	8	—	
Liabilities derivatives					
Currency derivatives	2	—	2	—	(a) Trade and other payables
Natural gas swap contracts	9	—	9	—	(a) Trade and other payables Other liabilities and deferred
Natural gas swap contracts	8	—	8	—	(a) credits
Total Liabilities	19	—	19	—	
Other Instruments:					
Stock-based compensation - liability awards	6	6	—	—	Trade and other payables
Stock-based compensation - liability awards	16	16	—	—	Other liabilities and deferred credits
Long-term debt	1,029	—	1,029	—	(b) Long-term debt

- (a) Fair value of the Company's derivatives are classified under Level 2 (inputs that are observable; directly or indirectly) as it is measured as follows:
- For currency derivatives: Foreign currency forward and option contracts are valued using standard valuation models. Interest rates, forward market rates and volatility are used as inputs for such valuation techniques.
 - For natural gas contracts: Fair value is measured using the discounted difference between contractual rates and quoted market future rates.
- (b) Fair value of the Company's long-term debt is measured by comparison to market prices of its debt. The Company's long-term debt is not carried at fair value on the Consolidated Balance Sheets at December 31, 2020 and December 31, 2019. The carrying value of the Company's long-term debt is \$1,097 million and \$938 million at December 31, 2020 and December 31, 2019, respectively.

Due to their short-term maturity, the carrying amounts of cash and cash equivalents, receivables, bank indebtedness, trade and other payables and income and other taxes approximate their fair values.

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NOTE 24.

SEGMENT DISCLOSURES

Following the agreement on January 7, 2021 to sell the Company's Personal Care business, the Company now operates as a single reportable segment as described below, which also represents its only operating segment:

- **Pulp and Paper** – consists of the design, manufacturing, marketing and distribution of communication, specialty and packaging papers, as well as softwood, fluff and hardwood market pulp.

The accounting policies of the reportable segments are the same as those described in Note 1. The Company evaluates segment performance based on operating income. Certain Corporate general and administrative costs are allocated to the segment. Corporate costs that are not related to segment activities, as well as the mark-to-market impact on stock-based compensation awards, are presented on the Corporate line. The Company does not allocate interest expense and income taxes to the segment. Segment assets are those directly used in segment operations.

The Company attributes sales to customers in different geographical areas on the basis of the location of the customer.

Long-lived assets consist of property, plant and equipment, operating lease right-of-use assets and intangible assets used in the generation of sales in the different geographical areas.

Starting January 1, 2020, EAM Corporation, a manufacturer of high quality airlaid and ultrathin laminated cores, previously reported under the Company's former Personal Care segment is now presented under its Pulp and Paper segment. Prior period segment results have been restated to the new segment presentation with no significant impact on segment results. There were no changes to the Company's consolidated sales or operating income.

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NOTE 24. SEGMENT DISCLOSURES (CONTINUED)

An analysis and reconciliation of the Company's business segment information to the respective information in the financial statements is as follows:

SEGMENT DATA	Year ended December 31, 2020 \$	Year ended December 31, 2019 \$	Year ended December 31, 2018 \$
Sales by product group			
Communication papers	1,968	2,571	2,548
Specialty and packaging papers	575	637	710
Market pulp	1,064	1,119	1,260
Absorbent hygiene products	45	42	47
Consolidated sales (1)	<u>3,652</u>	<u>4,369</u>	<u>4,565</u>
Operating (loss) income from continuing operations (2)			
Pulp and Paper	(143)	226	442
Corporate	(34)	(47)	(47)
Consolidated operating (loss) income from continuing operations	(177)	179	395
Interest expense, net	58	52	62
Non-service components of net periodic benefit cost	(17)	23	(18)
(Loss) earnings before income taxes and equity loss	(218)	104	351
Income tax (benefit) expense	(76)	17	68
Equity loss, net of taxes	3	2	2
(Loss) earnings from continuing operations	(145)	85	281
Earnings (loss) from discontinued operations, net of taxes	18	(1)	2
Net (loss) earnings	<u>(127)</u>	<u>84</u>	<u>283</u>

(1) In 2020 and 2019, Staples, one of the Company's largest customers, represented approximately 12% (2019 – 13%) of the total sales.

(2) The Government of Canada created the Canada Emergency Wage Subsidy ("CEWS") to provide financial support for businesses during the COVID-19 pandemic and prevent large layoffs. During the year, the Company recognized \$36 million as a reduction of costs (CDN \$48 million) (\$29 million in Cost of sales (CDN \$38 million) and \$7 million in Selling, general and administrative (CDN \$10 million)) related to this program.

	December 31, 2020 \$	December 31, 2019 \$
Segment assets		
Pulp and Paper	3,209	3,562
Corporate	514	203
Total for reportable segments	<u>3,723</u>	<u>3,765</u>
Assets held for sale	1,133	1,138
Consolidated assets	<u>4,856</u>	<u>4,903</u>

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NOTE 24. SEGMENT DISCLOSURES (CONTINUED)

	Year ended December 31, 2020 \$	Year ended December 31, 2019 \$	Year ended December 31, 2018 \$
Additions to property, plant and equipment			
Pulp and Paper	124	225	167
Corporate	3	3	2
Discontinued Operations	33	36	34
Consolidated additions to property, plant and equipment	160	264	203
Add: Change in payables on capital projects	15	(9)	(8)
Consolidated additions to property, plant and equipment per Consolidated Statements of Cash Flows	175	255	195
	Year ended December 31, 2020 \$	Year ended December 31, 2019 \$	Year ended December 31, 2018 \$
Geographic information			
Sales			
United States	2,755	3,306	3,257
Canada	324	419	470
Europe	117	150	221
Asia	374	369	488
Other foreign countries	82	125	129
	3,652	4,369	4,565
	December 31, 2020 \$	December 31, 2019 \$	
Long-lived assets			
United States	1,423	1,620	
Canada	688	691	
	2,111	2,311	

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NOTE 25.

SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

The following information is presented as required under Rule 3-10 of Regulation S-X, in connection with the Company's issuance of debt securities that are fully and unconditionally guaranteed by Domtar's significant 100% owned domestic subsidiaries, including Domtar Paper Company, LLC, Domtar Industries LLC (and subsidiaries, excluding Domtar Funding LLC), Domtar A.W. LLC, Attends Healthcare Products Inc., EAM Corporation, Associated Hygienic Products LLC and Home Delivery Incontinent Supplies Co., ("Guarantor Subsidiaries"), on a joint and several basis. The Guaranteed Debt is not guaranteed by certain of Domtar's foreign and non-significant domestic subsidiaries, all 100% owned, (collectively the "Non-Guarantor Subsidiaries"). A subsidiary's guarantee may be released in certain customary circumstances, such as if the subsidiary is sold or sells all of its assets, if the subsidiary's guarantee of the Credit Agreement is terminated or released and if the requirements for legal defeasance to discharge the indenture have been satisfied.

Upon the sale of the Personal Care business, anticipated to take place during the first quarter of 2021, Attends Healthcare Products Inc., Associated Hygienic Products LLC and Home Delivery Incontinent Supplies Co. will cease to be guarantors.

The following supplemental condensed consolidating financial information sets forth, on an unconsolidated basis, the Balance Sheets at December 31, 2020 and 2019 and the Statements of Earnings (Loss) and Comprehensive Income (Loss) and Cash Flows for the years ended December 31, 2020, 2019 and 2018 for Domtar Corporation (the "Parent"), and on a combined basis for the Guarantor Subsidiaries and, on a combined basis, the Non-Guarantor Subsidiaries. The supplemental condensed consolidating financial information reflects the investments of the Parent in the Guarantor Subsidiaries, as well as the investments of the Guarantor Subsidiaries in the Non-Guarantor Subsidiaries, using the equity method.

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NOTE. 25 SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)	Year ended December 31, 2020				
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	\$	\$	\$	\$	\$
Sales	—	3,232	1,352	(932)	3,652
Operating expenses					
Cost of sales, excluding depreciation and amortization	—	2,952	1,105	(932)	3,125
Depreciation and amortization	—	164	59	—	223
Selling, general and administrative	8	38	207	—	253
Impairment of long-lived assets	—	136	—	—	136
Closure and restructuring costs	—	84	15	—	99
Other operating loss (income), net	2	(5)	(4)	—	(7)
	<u>10</u>	<u>3,369</u>	<u>1,382</u>	<u>(932)</u>	<u>3,829</u>
Operating loss	(10)	(137)	(30)	—	(177)
Interest expense (income), net	65	72	(79)	—	58
Non-service components of net periodic benefit cost	—	(6)	(11)	—	(17)
(Loss) earnings before income taxes and equity loss	(75)	(203)	60	—	(218)
Income tax (benefit) expense	(24)	(73)	21	—	(76)
Equity loss, net of taxes	—	1	2	—	3
Share in earnings of equity accounted investees	(72)	52	—	20	—
(Loss) earnings from continuing operations	(123)	(79)	37	20	(145)
(Loss) earnings from discontinued operations, net of taxes	(4)	7	15	—	18
Net (loss) earnings	(127)	(72)	52	20	(127)
Other comprehensive income	89	80	54	(134)	89
Comprehensive (loss) income	(38)	8	106	(114)	(38)

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NOTE. 25 SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME	Year ended December 31, 2019				
	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
	\$	\$	\$	\$	\$
Sales	—	3,878	1,491	(1,000)	4,369
Operating expenses					
Cost of sales, excluding depreciation and amortization	1	3,349	1,260	(1,000)	3,610
Depreciation and amortization	—	172	59	—	231
Selling, general and administrative	9	162	120	—	291
Impairment of long-lived assets	—	32	—	—	32
Closure and restructuring costs	—	22	—	—	22
Other operating (income) loss, net	—	(3)	7	—	4
	<u>10</u>	<u>3,734</u>	<u>1,446</u>	<u>(1,000)</u>	<u>4,190</u>
Operating (loss) income	(10)	144	45	—	179
Interest expense (income), net	69	80	(97)	—	52
Non-service components of net periodic benefit cost	—	2	21	—	23
(Loss) earnings before income taxes and equity loss	(79)	62	121	—	104
Income tax (benefit) expense	(17)	2	32	—	17
Equity loss, net of taxes	—	1	1	—	2
Share in earnings of equity accounted investees	146	121	—	(267)	—
Earnings from continuing operations	84	180	88	(267)	85
(Loss) earnings from discontinued operations, net of taxes	—	(34)	33	—	(1)
Net earnings	84	146	121	(267)	84
Other comprehensive income	74	81	49	(130)	74
Comprehensive income	<u>158</u>	<u>227</u>	<u>170</u>	<u>(397)</u>	<u>158</u>

DOMTAR CORPORATION
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NOTE. 25 SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME	Year ended December 31, 2018				
	Parent \$	Guarantor Subsidiaries \$	Non- Guarantor Subsidiaries \$	Consolidating Adjustments \$	Consolidated \$
Sales	—	3,961	1,732	(1,128)	4,565
Operating expenses					
Cost of sales, excluding depreciation and amortization	—	3,437	1,329	(1,128)	3,638
Depreciation and amortization	—	181	60	—	241
Selling, general and administrative	11	25	256	—	292
Other operating (income) loss, net	—	(3)	2	—	(1)
	11	3,640	1,647	(1,128)	4,170
Operating (loss) income	(11)	321	85	—	395
Interest expense (income), net	62	91	(91)	—	62
Non-service components of net periodic benefit cost	—	1	(19)	—	(18)
(Loss) earnings before income taxes and equity loss	(73)	229	195	—	351
Income tax (benefit) expense	(20)	38	50	—	68
Equity loss, net of taxes	—	1	1	—	2
Share in earnings of equity accounted investees	336	166	—	(502)	—
Earnings from continuing operations	283	356	144	(502)	281
(Loss) earnings from discontinued operations, net of taxes	—	(20)	22	—	2
Net earnings	283	336	166	(502)	283
Other comprehensive loss	(131)	(133)	(110)	243	(131)
Comprehensive income	152	203	56	(259)	152

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NOTE. 25 SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET	December 31, 2020				
	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Consolidating Adjustments</u>	<u>Consolidated</u>
	\$	\$	\$	\$	\$
Assets					
Current assets					
Cash and cash equivalents	208	5	96	—	309
Receivables	—	65	315	—	380
Inventories	—	425	205	—	630
Prepaid expenses	8	37	5	—	50
Income and other taxes receivable	36	—	18	—	54
Intercompany accounts	759	902	433	(2,094)	—
Assets held for sale	—	488	648	(3)	1,133
Total current assets	1,011	1,922	1,720	(2,097)	2,556
Property, plant and equipment, net	—	1,348	675	—	2,023
Operating lease right-of-use assets	—	48	11	—	59
Intangible assets, net	—	24	5	—	29
Investments in affiliates	3,558	2,169	—	(5,727)	—
Intercompany long-term advances	5	—	1,157	(1,162)	—
Other assets	11	41	143	(6)	189
Total assets	4,585	5,552	3,711	(8,992)	4,856
Liabilities and shareholders' equity					
Current liabilities					
Trade and other payables	26	294	167	(3)	484
Intercompany accounts	677	491	926	(2,094)	—
Income and other taxes payable	3	11	1	—	15
Operating lease liabilities due within one year	—	15	5	—	20
Long-term debt due within one year	12	—	1	—	13
Liabilities held for sale	—	121	174	—	295
Total current liabilities	718	932	1,274	(2,097)	827
Long-term debt	1,075	—	9	—	1,084
Operating lease liabilities	—	44	6	—	50
Intercompany long-term loans	509	653	—	(1,162)	—
Deferred income taxes and other	—	237	90	(6)	321
Other liabilities and deferred credits	23	128	163	—	314
Shareholders' equity	2,260	3,558	2,169	(5,727)	2,260
Total liabilities and shareholders' equity	4,585	5,552	3,711	(8,992)	4,856

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NOTE. 25 SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

CONDENSED CONSOLIDATING BALANCE SHEET	December 31, 2019				
	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Consolidating Adjustments</u>	<u>Consolidated</u>
	\$	\$	\$	\$	\$
Assets					
Current assets					
Cash and cash equivalents	1	11	49	—	61
Receivables	—	114	368	—	482
Inventories	—	468	195	—	663
Prepaid expenses	5	14	10	—	29
Income and other taxes receivable	34	—	22	—	56
Intercompany accounts	538	547	237	(1,322)	—
Assets held for sale	—	110	117	—	227
Total current assets	<u>578</u>	<u>1,264</u>	<u>998</u>	<u>(1,322)</u>	<u>1,518</u>
Property, plant and equipment, net	—	1,545	678	—	2,223
Operating lease right-of-use assets	—	44	14	—	58
Intangible assets, net	—	25	5	—	30
Investments in affiliates	3,627	2,493	—	(6,120)	—
Intercompany long-term advances	5	1	1,482	(1,488)	—
Other assets	14	30	130	(11)	163
Non-current assets held for sale	—	383	528	—	911
Total assets	<u>4,224</u>	<u>5,785</u>	<u>3,835</u>	<u>(8,941)</u>	<u>4,903</u>
Liabilities and shareholders' equity					
Current liabilities					
Bank indebtedness	—	9	—	—	9
Trade and other payables	57	338	185	—	580
Intercompany accounts	344	299	679	(1,322)	—
Income and other taxes payable	1	12	2	—	15
Operating lease liabilities due within one year	—	13	5	—	18
Long-term debt due within one year	—	—	1	—	1
Liabilities held for sale	—	60	83	—	143
Total current liabilities	<u>402</u>	<u>731</u>	<u>955</u>	<u>(1,322)</u>	<u>766</u>
Long-term debt	873	1	63	—	937
Operating lease liabilities	—	31	9	—	40
Intercompany long-term loans	541	946	1	(1,488)	—
Deferred income taxes and other	—	277	94	(11)	360
Other liabilities and deferred credits	32	96	141	—	269
Long-term liabilities held for sale	—	76	79	—	155
Shareholders' equity	<u>2,376</u>	<u>3,627</u>	<u>2,493</u>	<u>(6,120)</u>	<u>2,376</u>
Total liabilities and shareholders' equity	<u>4,224</u>	<u>5,785</u>	<u>3,835</u>	<u>(8,941)</u>	<u>4,903</u>

DOMTAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020
(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE. 25 SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

**CONDENSED CONSOLIDATING STATEMENT OF
CASH FLOWS**

	Year ended December 31, 2020				
	Parent	Guarantor	Non-	Consolidating	Consolidated
	\$	\$	Guarantor Subsidiaries \$	Adjustments \$	\$
Operating activities					
Net (loss) earnings	(127)	(72)	52	20	(127)
Changes in operating and intercompany assets and liabilities and non-cash items, included in net (loss) earnings	167	107	284	(20)	538
Cash flows provided from operating activities	<u>40</u>	<u>35</u>	<u>336</u>	<u>—</u>	<u>411</u>
Investing activities					
Additions to property, plant and equipment	—	(104)	(71)	—	(175)
Proceeds from disposals of property, plant and equipment	—	3	—	—	3
Acquisition of business, net of cash acquired	—	—	(30)	—	(30)
Cash flows provided from (used for) investing activities	<u>—</u>	<u>(101)</u>	<u>(101)</u>	<u>—</u>	<u>(202)</u>
Financing activities					
Dividend payments	(51)	—	—	—	(51)
Stock repurchase	(59)	—	—	—	(59)
Net change in bank indebtedness	—	(10)	—	—	(10)
Change in revolving credit facility	(80)	—	—	—	(80)
Proceeds from receivables securitization facility	—	—	25	—	25
Repayments of receivables securitization facility	—	—	(80)	—	(80)
Issuance of long-term debt	300	—	—	—	300
Repayments of long-term debt	(6)	—	(1)	—	(7)
Increase in long-term advances to related parties	—	—	(137)	137	—
Decrease in long-term advances to related parties	67	70	—	(137)	—
Other	(4)	—	1	—	(3)
Cash flows provided from (used for) financing activities	<u>167</u>	<u>60</u>	<u>(192)</u>	<u>—</u>	<u>35</u>
Net increase (decrease) in cash and cash equivalents	207	(6)	43	—	244
Impact of foreign exchange on cash	—	—	4	—	4
Cash and cash equivalents at beginning of year	<u>1</u>	<u>11</u>	<u>49</u>	<u>—</u>	<u>61</u>
Cash and cash equivalents at end of year	<u>208</u>	<u>5</u>	<u>96</u>	<u>—</u>	<u>309</u>

DOMTAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020
(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE. 25 SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

**CONDENSED CONSOLIDATING STATEMENT OF
CASH FLOWS**

	Year ended December 31, 2019				
	Parent	Guarantor	Non-	Consolidating	Consolidated
	\$	\$	Guarantor Subsidiaries \$	Adjustments \$	\$
Operating activities					
Net earnings	84	146	121	(267)	84
Changes in operating and intercompany assets and liabilities and non-cash items, included in net earnings	32	(93)	152	267	358
Cash flows provided from operating activities	116	53	273	—	442
Investing activities					
Additions to property, plant and equipment	—	(137)	(118)	—	(255)
Proceeds from disposals of property, plant and equipment	—	1	—	—	1
Cash flows used for investing activities	—	(136)	(118)	—	(254)
Financing activities					
Dividend payments	(110)	—	—	—	(110)
Stock repurchase	(219)	—	—	—	(219)
Net change in bank indebtedness	—	9	—	—	9
Change in revolving credit facility	80	—	—	—	80
Proceeds from receivables securitization facility	—	—	205	—	205
Repayments of receivables securitization facility	—	—	(200)	—	(200)
Repayments of long-term debt	—	—	(1)	—	(1)
Increase in long-term advances to related parties	—	—	(220)	220	—
Decrease in long-term advances to related parties	135	85	—	(220)	—
Other	(1)	—	—	—	(1)
Cash flows (used for) provided from financing activities	(115)	94	(216)	—	(237)
Net increase (decrease) in cash and cash equivalents	1	11	(61)	—	(49)
Impact of foreign exchange on cash	—	—	(1)	—	(1)
Cash and cash equivalents at beginning of year	—	—	111	—	111
Cash and cash equivalents at end of year	1	11	49	—	61

DOMTAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020
(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)

NOTE. 25 SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION (CONTINUED)

**CONDENSED CONSOLIDATING STATEMENT OF
CASH FLOWS**

	Year ended December 31, 2018				
	Parent	Guarantor	Non- Guarantor	Consolidating	Consolidated
	\$	\$	\$	\$	\$
Operating activities					
Net earnings	283	336	166	(502)	283
Changes in operating and intercompany assets and liabilities and non-cash items, included in net earnings	(557)	434	(108)	502	271
Cash flows (used for) provided from operating activities	(274)	770	58	—	554
Investing activities					
Additions to property, plant and equipment	—	(142)	(53)	—	(195)
Proceeds from disposals of property, plant and equipment	—	1	4	—	5
Other	—	(2)	(4)	—	(6)
Cash flows used for investing activities	—	(143)	(53)	—	(196)
Financing activities					
Dividend payments	(108)	—	—	—	(108)
Proceeds from receivables securitization facility	—	—	85	—	85
Repayments of receivables securitization facility	—	—	(60)	—	(60)
Repayments of long-term debt	—	(300)	(1)	—	(301)
Increase in long-term advances to related parties	—	(341)	(36)	377	—
Decrease in long-term advances to related parties	377	—	—	(377)	—
Other	2	—	—	—	2
Cash flows provided from (used for) financing activities	271	(641)	(12)	—	(382)
Net decrease in cash and cash equivalents	(3)	(14)	(7)	—	(24)
Impact of foreign exchange on cash	—	—	(4)	—	(4)
Cash and cash equivalents at beginning of year	3	14	122	—	139
Cash and cash equivalents at end of year	—	—	111	—	111

Domtar Corporation

Interim Financial Results (Unaudited)

(In millions of dollars, unless otherwise noted)

2020	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
Sales	\$ 1,031	\$ 802	\$ 899	\$ 920	\$ 3,652
Operating loss	(1)	(4) (a)	(152) (b)	(20) (c)	(177)
Loss before income taxes and equity loss	(11)	(14)	(162)	(31)	(218)
Loss from continuing operations	(15)	(3)	(111)	(16)	(145)
Earnings (loss) from discontinued operations, net of taxes	20	22	19	(43)	18
Net earnings (loss)	5	19	(92)	(59)	(127)
Basic net earnings (loss) per common share					
Loss from continuing operations	(0.27)	(0.05)	(2.01)	(0.29)	(2.62)
Earnings (loss) from discontinued operations	0.36	0.39	0.34	(0.78)	0.33
Basic net earnings (loss) per common share	0.09	0.34	(1.67)	(1.07)	(2.29)
Diluted net earnings (loss) per common share					
Loss from continuing operations	(0.27)	(0.05)	(2.01)	(0.29)	(2.62)
Earnings (loss) from discontinued operations	0.36	0.39	0.34	(0.78)	0.33
Diluted net earnings (loss) per common share	0.09	0.34	(1.67)	(1.07)	(2.29)
2019					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
Sales	\$ 1,157	\$ 1,106	\$ 1,079	\$ 1,027	\$ 4,369
Operating income (loss)	123	52	27 (d)	(23) (e)	179
Earnings (loss) before income taxes and equity loss	113	41	17	(67) (f)	104
Earnings (loss) from continuing operations	83	31	15	(44)	85
(Loss) earnings from discontinued operations, net of taxes	(3)	(13)	5	10	(1)
Net earnings (loss)	80	18	20	(34)	84
Basic net earnings (loss) per common share					
Earnings (loss) from continuing operations	1.32	0.50	0.25	(0.76)	1.39
(Loss) earnings from discontinued operations	(0.05)	(0.21)	0.08	0.17	(0.02)
Basic net earnings (loss) per common share	1.27	0.29	0.33	(0.59)	1.37
Diluted net earnings (loss) per common share					
Earnings (loss) from continuing operations	1.32	0.49	0.24	(0.76)	1.39
(Loss) earnings from discontinued operations	(0.05)	(0.21)	0.08	0.17	(0.02)
Diluted net earnings (loss) per common share	1.27	0.28	0.32	(0.59)	1.37

(a) The operating loss for the second Quarter of 2020 included closure and restructuring costs of \$1 million.

(b) The operating loss for the third Quarter of 2020 included closure and restructuring costs of \$68 million and impairment of long-lived assets of \$111 million.

(c) The operating loss for the fourth Quarter of 2020 included closure and restructuring costs of \$30 million and impairment of long-lived assets of \$25 million.

(d) The operating income for the third Quarter of 2019 included closure and restructuring costs of \$5 million and impairment of long-lived assets of \$32 million.

(e) The operating loss for the fourth Quarter of 2019 included closure and restructuring costs of \$17 million.

(f) The loss before income taxes and equity loss for the fourth Quarter of 2019 included a pension settlement loss of \$30 million.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company has nothing to report under this item.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports under the Securities and Exchange Act of 1934, as amended (“Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As of December 31, 2020, an evaluation was performed by members of management, at the direction and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as at December 31, 2020, our disclosure controls and procedures were effective.

Management’s Report on Internal Control over Financial Reporting

The information called for by this item is incorporated herein by reference to “Management’s Report on Internal Control Over Financial Reporting”, and the attestation regarding internal controls over financial reporting included in the “Report of Independent Registered Public Accounting Firm” included in Item 8 of this Report.

Change in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting during the fourth quarter ended December 31, 2020.

ITEM 9B. OTHER INFORMATION

The Company has nothing to report under this item.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information included under the captions “Governance of the Corporation” and “Election of Directors” in our Proxy Statement for the 2021 Annual Meeting of Stockholders, to be filed on or about March 25, 2021, is incorporated herein by reference.

Information regarding our executive officers is presented in Item 1, Business, under the caption “Our Executive Officers”.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing under the caption “Compensation Discussion and Analysis”, “Executive Compensation” and “Director Compensation” in our Proxy Statement for the 2021 Annual Meeting of Stockholders, to be filed on or about March 25, 2021, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information appearing under the caption “Security Ownership of Certain Beneficial Owners, Directors and Officers” in our Proxy Statement for the 2021 Annual Meeting of Stockholders, to be filed on or about March 25, 2021, is incorporated herein by reference.

The following table sets forth the number of shares of our stock reserved for issuance under our equity compensation plans as of December 31, 2020:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (#) (a)	Weighted average exercise price of outstanding options, warrants and rights (\$) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (#) (c)
Equity compensation plans approved by security holders	1,622,535	(1) \$ 47.07	(2) 872,136
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	1,622,535	\$ 47.07	872,136

(1) Represents the total number of shares associated with options, restricted stock units ("RSUs"), performance share units ("PSUs"), deferred share units ("DSUs") and dividends equivalent units ("DEUs") outstanding as of December 31, 2020 that may or will be settled in equity. This number assumes that PSUs will vest at the “maximum” performance level, and that any performance requirements applicable to options will be satisfied.

(2) Represents the weighted average exercise price of options disclosed in column (a).

(3) Represents the number of shares remaining available for issuance in settlement of future awards under the Omnibus Incentive Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information appearing under the captions “Governance of the Corporation – Board Independence and Other Determinations” in our Proxy Statement for the 2021 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information appearing under the caption “Ratification of Appointment of Independent Registered Public Accounting Firm” and “Independent Registered Public Accounting Firm Fees” in our Proxy Statement for the 2021 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a) 1. Financial Statements – See Item 8, Financial Statements and Supplementary Data.
2. Schedule II – Valuation and Qualifying Accounts

All other schedules are omitted as the information required is either included elsewhere in the consolidated financial statements in Item 8, Financial Statements and Supplementary Data – or is not applicable.

3. Exhibits:

Exhibit Number	Exhibit Description	Incorporated by reference to:		
		Form	Exhibit	Filing Date
2.1	Securities Purchase Agreement among Domtar AI Inc, Domtar Luxembourg Investments SARI, Domtar Corporation and Journey Personal Care Corp. dated as of January 7, 2021	8-K	2.1	01/08/2021
3.1	Amended and Restated Certificate of Incorporation	10-Q	3.1	08/08/2008
3.2	Certificate of Amendment of the Amended and Restated Certificate of Incorporation	8-K	3.1	06/08/2009
3.3	Amended and Restated By-Laws	8-K	3.1	02/24/2016
4.1	Supplemental Indenture, dated February 15, 2008, among Domtar Corp., Domtar Paper Company LLC, The Bank of New York, as Trustee, and the new subsidiary guarantors as parties thereto, relating to the guarantee by the new subsidiary guarantors of the obligations under the Indenture	8-K	4.1	02/21/2008
4.2	Supplemental Indenture, dated as of March 16, 2012, among Domtar Corporation, the subsidiary guarantors party thereto, and The Bank of New York Mellon (formerly known as The Bank of New York), as trustee, providing for Domtar Corporation's 4.40% Notes due 2022	8-K	4.1	03/16/2012
4.3	Supplemental Indenture, dated May 21, 2012, among Domtar Corporation, EAM Corporation, and The Bank of New York Mellon, as trustee, relating to EAM Corporation's guarantee of the obligations under the Indenture	S-3	4.8	08/20/2012
4.4	Supplemental Indenture, dated as of August 23, 2012, among Domtar Corporation, the subsidiary guarantors party thereto, and The Bank of New York Mellon (formerly the Bank of New York), as trustee, providing for Domtar Corporation's 6.25% Notes due 2042	8-K	4.1	08/23/2012
4.5	Supplemental Indenture, dated as of November 26, 2013, among Domtar Corporation, the subsidiary guarantors party thereto, and The Bank of New York Mellon (formerly the Bank of New York), as trustee, providing for Domtar Corporation's 6.75% Notes due 2044	8-K	4.1	11/26/2013
4.6	Term Loan Agreement dated as of May 5, 2020, among Domtar Corporation, as borrower, the tenders party thereto and Cobank, ACB, a farm credit bank, as agent	10-Q	10.1	05/08/2020
4.7	Third Amended and Restated Credit Agreement dated as of August 22, 2018	10-Q	10.1	11/08/2018
10.1*	Domtar Corporation Deferred Share Unit Plan for Outside Directors (for former directors of Domtar Inc.)	10-K	10.30	02/27/2009
10.2*	Director Deferred Stock Unit Agreement	8-K	10.1	05/24/2007

Exhibit Number	Exhibit Description	Incorporated by reference to:		
		Form	Exhibit	Filing Date
10.3*	Non-Qualified Stock Option Agreement	10-K	10.4	02/22/2019
10.4*	Restricted Stock Unit Agreement			
10.5*	Performance Share Unit Agreement			
10.6*	Amended and Restated Severance Program for Management Committee Members			
10.7*	Amended and Restated DB SERP for Management Committee Members of Domtar			
10.8*	Amended and Restated DC SERP for Designated Executives of Domtar	10-K	10.8	02/25/2020
10.9*	Form of Indemnification Agreement for members of Pension Administration Committee of Domtar Corporation	10-K	10.50	02/27/2009
10.10*	Amended and Restated Domtar Corporation 2007 Omnibus Incentive Plan			
10.11*	Domtar Corporation Annual Incentive Plan for Members of the Management Committee			
10.12*	Employment agreement of Mr. Michael Fagan	10-K	10.48	02/28/2013
10.13*	Amended and Restated Supplementary Pension Plan for Designated Managers of Domtar Inc.	10-Q	10.3	08/04/2017
10.14*	Amended and Restated Employment Agreement of Mr. John D. Williams	10-Q	10.1	08/02/2013
10.15*	Retention Bonus Letter Agreement of Mr. Michael Fagan			
10.16*	Separation Agreement of employment with Domtar of Mr. Michael D. Garcia			
21	Subsidiaries of Domtar Corporation			
23	Consent of Independent Registered Public Accounting Firm			
24.1	Powers of Attorney (included in signature page)			
31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
32.1	Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
32.2	Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002			
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.			
101.SCH	Inline XBRL Taxonomy Extension Schema			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase			

Exhibit Number	Exhibit Description	Incorporated by reference to:		
		Form	Exhibit	Filing Date
101.PRE	Inline XBRL Extension Presentation Linkbase			
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)			
*	Indicates management contract or compensatory arrangement			

FINANCIAL STATEMENT SCHEDULE
(IN MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

For the three years ended:

	<u>Balance at beginning of year</u> \$	<u>Charged to income</u> \$	<u>Deductions from reserve</u> \$	<u>Balance at end of year</u> \$
Allowances deducted from related asset accounts:				
Doubtful accounts - Accounts receivable				
2020	4	4	(2)	6
2019	3	1	—	4
2018	4	2	(3)	3
	<u>Balance at beginning of year</u> \$	<u>Charged to income</u> \$	<u>Deductions from reserve</u> \$	<u>Balance at end of year</u> \$
Valuation Allowance on Deferred Tax Assets				
2020	17	47	—	64
2019	12	5	—	17
2018	12	—	—	12

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Fort Mill, South Carolina, United States, on March 1, 2021

DOMTAR CORPORATION

by /s/ John D. Williams
Name: John D. Williams
Title: President and Chief Executive Officer

We, the undersigned directors and officers of Domtar Corporation, hereby severally constitute Zygmunt Jablonski and Razvan L. Theodoru, and each of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, in our names in the capacities indicated below, any and all amendments to this Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ John D. Williams John D. Williams	President and Chief Executive Officer (Principal Executive Officer) and Director	March 1, 2021
/s/ Daniel Buron Daniel Buron	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 1, 2021
/s/Giannella Alvarez Giannella Alvarez	Director	March 1, 2021
/s/ Robert E. Apple Robert E. Apple	Director	March 1, 2021
/s/ David J. Illingworth David J. Illingworth	Director	March 1, 2021
/s/ Brian M. Levitt Brian M. Levitt	Director	March 1, 2021
/s/ David G. Maffucci David G. Maffucci	Director	March 1, 2021
/s/ Pamela B. Strobel Pamela B. Strobel	Director	March 1, 2021
/s/ Denis Turcotte Denis Turcotte	Director	March 1, 2021
/s/ Mary A. Winston Mary A. Winston	Director	March 1, 2021

**RESTRICTED STOCK UNIT AGREEMENT
FOR AWARDS GRANTED IN 2020**

RESTRICTED STOCK UNIT AGREEMENT (the “Agreement”) dated as of the Grant Date set forth in the Notice of Grant (as defined below), by and between Domtar Corporation, a Delaware corporation (the “Company”), and the participant whose name appears in the Notice of Grant (the “Participant”).

1. Grant of Restricted Stock Units. The Company hereby evidences and confirms its grant to the Participant, effective as of the Grant Date, of the number of restricted stock units (the “Restricted Stock Units”) specified in the Domtar Corporation 2007 Omnibus Incentive Plan Restricted Stock Unit Grant Notice delivered by the Company to the Participant (the “Notice of Grant”). This Agreement is subordinate to, and the terms and conditions of the Restricted Stock Units granted hereunder are subject to, the terms and conditions of the Amended and Restated Domtar Corporation 2007 Omnibus Incentive Plan (as amended, the “Plan”), which are incorporated by reference herein. If there is any inconsistency between the terms hereof and the terms of the Plan, the terms of the Plan shall govern. Any capitalized terms used herein without definition shall have the meanings set forth in the Plan. The Restricted Stock Units shall be considered Service Awards under the Plan.

2. Vesting of Restricted Stock Units.

(a) Vesting. Except as otherwise provided in this Section 2, the Restricted Stock Units shall become vested, if at all, on the vesting date(s) set forth in the Notice of Grant (each, a “Vesting Date”), subject to the continued employment of the Participant by the Company or any Subsidiary thereof through such date.

(b) Termination of Employment.

(i) Death or Disability. If the Participant’s employment is terminated due to death or Disability prior to the Vesting Date, 100% of the Restricted Stock Units shall become fully vested and non-forfeitable and shall be paid as provided in Section 3.

(ii) Retirement. If the Participant’s employment is terminated due to Retirement prior to the Vesting Date, the Participant shall be deemed vested to the extent of the number of Restricted Stock Units that would have vested had the Participant’s Service continued until the Vesting Date, multiplied by a fraction, the numerator of which is the number of days elapsed from the Grant Date through the date of the Participant’s Retirement and the denominator of which is the number of days from the Grant Date to the Vesting Date, and any remaining Restricted Stock Units shall be forfeited and canceled as of the date of such Retirement. Vested Restricted Stock Units shall be settled as set forth in Section 3.

(iii) Any Other Reason. If the Participant's employment is terminated prior to the Vesting Date for any reason other than death, Disability or Retirement, all Restricted Stock Units shall immediately be forfeited and canceled effective as of the date of the Participant's termination.

(c) Change in Control. In the event of a Change in Control, then the Restricted Stock Units shall vest or continue as set forth in the Plan.

(d) Committee Discretion. Notwithstanding anything contained in this Agreement to the contrary, the Committee, in its sole discretion, may accelerate the vesting with respect to any Restricted Stock Units under this Agreement, at such times and upon such terms and conditions as the Committee shall determine.

3. Settlement of Restricted Stock Units. Subject to Section 7(d), the Company shall deliver to the Participant the value of one share of Stock in settlement of each outstanding Restricted Stock Unit that has vested as provided in Section 2 on the first to occur of (i) the Vesting Date, (ii) in the event of a Termination of Service due to death, Disability or Retirement, (A) as soon as reasonably practicable after such Termination of Service or (B) notwithstanding the preceding clause (A), if the Participant is a United States citizen or resident or the Participant's Restricted Stock Units are otherwise subject to United States federal income tax, on the later of (1) January 31 of the year following the Participant's Termination of Service and (2) if the Participant is a Specified Employee and the Restricted Stock Units are a Specified Award, to the extent necessary to comply with, and avoid imposition on the Participant of any additional tax or interest imposed under, Section 409A of the Code, on the first business day following the six-month anniversary of the Participant's Termination of Service (or, if earlier, upon the Participant's death), or as soon thereafter as practicable (but no later than 90 days thereafter) (iii) with respect to Restricted Stock Units that are not a Specified Award, a Change in Control in which the Restricted Stock Units do not continue, and (iv) with respect to Restricted Stock Units that are a Specified Award, a Specified Change in Control, in each case (A) by a cash payment equal to the Fair Market Value of the Stock on the settlement date or (B) if the Participant is a member of the Management Committee, at the Company's sole discretion, in Stock, by either (y) issuing one or more certificates evidencing the Stock to the Participant or (z) registering the issuance of the Stock in the name of the Participant through a book entry credit in the records of the Company's transfer agent or (C) in the event of settlement upon a Change in Control or Specified Change in Control, as applicable, a cash payment equal to the Change in Control Price, multiplied by the number of vested Restricted Stock Units. No fractional shares of Stock shall be issued in settlement of Restricted Stock Units. Fractional Restricted Stock Units shall be settled through a cash payment equal to the Fair Market Value of the Stock on the settlement date.

4. Securities Law Compliance. Notwithstanding any other provision of this Agreement, the Participant may not sell the shares of Stock acquired upon vesting of the

Restricted Stock Units unless such shares are registered under the Securities Act of 1933, as amended (the “Securities Act”), or, if such shares are not then so registered, such sale would be exempt from the registration requirements of the Securities Act. The sale of such shares must also comply with other applicable laws and regulations governing the shares and Participant may not sell the shares of Stock if the Company determines that such sale would not be in material compliance with such laws and regulations.

5. Participant’s Rights with Respect to the Restricted Stock Units.

(a) Restrictions on Transferability. The Restricted Stock Units granted hereby are not assignable or transferable, in whole or in part, and may not, directly or indirectly, be offered, transferred, sold, pledged, assigned, alienated, hypothecated or otherwise disposed of or encumbered (including without limitation by gift, operation of law or otherwise) other than by will or by the laws of descent and distribution to the estate of the Participant upon the Participant’s death; provided that the deceased Participant’s beneficiary or representative of the Participant’s estate shall acknowledge and agree in writing, in a form reasonably acceptable to the Company, to be bound by the provisions of this Agreement and the Plan as if such beneficiary or the estate were the Participant.

(b) No Rights as Stockholder. The Participant shall not have any rights as a stockholder including any voting, dividend or other rights or privileges as a stockholder of the Company with respect to any Stock corresponding to the Restricted Stock Units granted hereby unless and until shares of Stock are issued to the Participant in respect thereof.

(c) Dividend Equivalents. The Participant shall be credited with Dividend Equivalents in the form of additional Restricted Stock Units when cash dividends are paid on the Stock. Such Dividend Equivalents shall be computed by dividing: (i) the amount obtained by multiplying the amount of the dividend declared and paid for each share of Stock by the number of Restricted Stock Units held by the Participant on the record date, by (ii) the Fair Market Value of the Stock on the dividend payment date for such dividend, with fractions computed to four decimal places. Such additional Restricted Stock Units shall vest and be settled in the same manner as the Restricted Stock Units to which they relate.

6. Adjustment in Capitalization. The number, class or other terms of any outstanding Restricted Stock Units shall be adjusted by the Board to reflect any extraordinary dividend, stock dividend, stock split or share combination or any recapitalization, business combination, merger, consolidation, spin-off, exchange of shares, liquidation or dissolution of the Company or other similar transaction affecting the Stock in such manner as it determines in its sole discretion.

7. Miscellaneous.

(a) Binding Effect; Benefits. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective successors and assigns. Nothing in this Agreement, express or implied, is intended or shall be construed to give any person other than the parties to this Agreement or their respective successors or assigns any legal or equitable right, remedy or claim under or in respect of any agreement or any provision contained herein.

(b) No Right to Continued Employment. Nothing in the Plan or this Agreement shall interfere with or limit in any way the right of the Company or any of its Subsidiaries to terminate the Participant's employment at any time, or confer upon the Participant any right to continue in the employ of the Company or any of its Subsidiaries.

(c) Interpretation. The Committee shall have full power and discretion to construe and interpret the Plan (and any rules and regulations issued thereunder) and this Award. Any determination or interpretation by the Committee under or pursuant to the Plan or this Award shall be final and binding and conclusive on all persons affected hereby.

(d) Tax Withholding. The Company and its Subsidiaries shall have the right to deduct from all amounts paid to the Participant in cash (whether under the Plan or otherwise) any amount of taxes required by law to be withheld in respect of settlement of the Restricted Stock Units under the Plan as may be necessary in the opinion of the Employer to satisfy tax withholding required under the laws of any country, state, province, city or other jurisdiction, including but not limited to income taxes, capital gains taxes, transfer taxes, and social security contributions that are required by law to be withheld. The Company may require the recipient of the cash or shares of Stock, as applicable, to remit to the Company an amount in cash sufficient to satisfy the amount of taxes required to be withheld as a condition to the payment of cash or issuance of shares in settlement of the Restricted Stock Units. The Committee may, in its discretion, require the Participant, or permit the Participant to elect, subject to such conditions as the Committee shall impose, to meet such obligations by having the Company withhold from the cash payment in settlement of the Restricted Stock Units or withhold or sell the least number of whole shares of Stock having a Fair Market Value sufficient to satisfy all or part of the amount required to be withheld. The Company may defer settlement until such requirements are satisfied.

(e) Forfeiture for Financial Reporting Misconduct. If the Company is required to prepare an accounting restatement due to material noncompliance by the Company with any financial reporting requirement under the securities laws, and if the Participant knowingly or grossly negligently engaged in the misconduct or knowingly or grossly negligently failed to prevent the misconduct as determined by the Committee, or if the Participant is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, then the Participant shall forfeit and disgorge to the Company (i) any Stock and cash received in respect of Restricted Stock Units granted or

vested and all gains earned or accrued due to the sale of any Stock received in settlement of the Restricted Stock Units during the 12-month period following the filing of the financial document embodying such financial reporting requirement and (ii) any Stock and cash received in respect of Restricted Stock Units that vested based on the materially non-complying financial reporting. The Company may also cancel or reduce, or require a Participant to forfeit and disgorge to the Company or reimburse the Company for, any Restricted Stock Units granted or vested and any gains earned or accrued, due to the vesting or settlement of Restricted Stock Units or sale of any Stock acquired in settlement of a Restricted Stock Unit, to the extent permitted or required by, or pursuant to any Company policy implemented as required by, applicable law, regulation or stock exchange rule as from time to time may be in effect (including but not limited to The Dodd–Frank Wall Street Reform and Consumer Protection Act and regulations and stock exchange rules promulgated pursuant to or as a result of such Act) or otherwise.

(f) Applicable Law. This Agreement shall be governed by and construed in accordance with the law of the State of Delaware regardless of the application of rules of conflict of law that would apply the laws of any other jurisdiction.

(g) Limitation on Rights; No Right to Future Grants; Extraordinary Item of Compensation. By entering into this Agreement and accepting the Restricted Stock Units evidenced hereby, the Participant acknowledges: (a) that the Plan is discretionary in nature and may be suspended or terminated by the Company at any time; (b) that the Award does not create any contractual or other right to receive future grants of Awards; (c) that participation in the Plan is voluntary; (d) that the value of the Restricted Stock Units is not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; and (e) that the future value of the Stock is unknown and cannot be predicted with certainty.

(h) Employee Data Privacy. By entering into this Agreement and accepting the Restricted Stock Units evidenced hereby, the Participant: (a) authorizes the Company and the Participant's employer, if different, any agent of the Company administering the Plan or providing Plan recordkeeping services, to disclose to the Company or any of its affiliates any information and data the Company requests in order to facilitate the grant of the Award and the administration of the Plan; (b) waives any data privacy rights the Participant may have with respect to such information; and (c) authorizes the Company and its agents to store and transmit such information in electronic form.

(i) Consent to Electronic Delivery. By entering into this Agreement and accepting the Restricted Stock Units evidenced hereby, Participant hereby consents to the delivery of information (including, without limitation, information required to be delivered to the Participant pursuant to applicable securities laws) regarding the Company and the Subsidiaries, the Plan, this Agreement and the Restricted Stock Units via Company web site or other electronic delivery.

(j) Headings and Captions. The section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

(k) Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument.

**PERFORMANCE SHARE UNIT AGREEMENT
FOR AWARDS GRANTED IN 2020**

PERFORMANCE SHARE UNIT AGREEMENT (the “Agreement”) dated as of the Grant Date set forth in the Notice of Grant (as defined below), by and between Domtar Corporation, a Delaware corporation (the “Company”), and the participant whose name appears in the Notice of Grant (the “Participant”).

1. Grant of Performance Share Units. The Company hereby evidences and confirms its grant to the Participant, effective as of the Grant Date, of the number of performance-based restricted stock units (the “Performance Share Units”) specified in the Domtar Corporation 2007 Omnibus Incentive Plan Performance Share Unit Grant Notice delivered by the Company to the Participant (the “Notice of Grant”). This Agreement is subordinate to, and the terms and conditions of the Performance Share Units granted hereunder are subject to, the terms and conditions of the Amended and Restated Domtar Corporation 2007 Omnibus Incentive Plan (as amended, the “Plan”), which are incorporated by reference herein. If there is any inconsistency between the terms hereof and the terms of the Plan, the terms of the Plan shall govern. Any capitalized terms used herein without definition shall have the meanings set forth in the Plan. The Performance Share Units shall be considered Performance Awards under the Plan.

2. Vesting of Performance Share Units.

(a) Vesting. Except as otherwise provided in this Section 2, the Performance Share Units shall become vested, if at all, on the vesting date(s) set forth in the Notice of Grant (each, a “Vesting Date”), subject to the continued employment of the Participant by the Company or any Subsidiary thereof through such date, and to the achievement of the Performance Goals (the “Goals”) established by the Committee pursuant to the Plan for the Performance Share Units for the performance period(s) (each a “Performance Period”) set forth in the Notice of Grant. As soon as feasible after the end of each Performance Period, the Committee will determine whether the Goals have been satisfied, in whole or in part. Based upon the foregoing determination, the number of Performance Share Units will vest on the Vesting Date on a percentage basis, as set forth in the Notice of Grant. Performance Share Units that have not vested by the Vesting Date in accordance with this Section 2 shall be forfeited.

(b) Termination of Employment.

(i) Death. If the Participant’s employment is terminated due to death prior to the end of a Performance Period, 100% of the Performance Share Units relating to such Performance Period, multiplied by a fraction, the numerator of which is the number of days elapsed from the commencement of the Performance Period through the date of the Participant’s death and the denominator of which is the number of days in the Performance Period, shall become fully vested and nonforfeitable and shall be paid as provided in Section 3. If the Participant’s

employment is terminated due to death after the end of any Performance Period but prior to the settlement date, the Participant shall be entitled to receive, and such Performance Share Units shall be deemed vested to the extent of, the number of shares of Stock that would have been payable with respect to the Performance Share Units relating to such Performance Period had the Participant's Service continued until the settlement date, subject to achievement of the Goals, and the remainder of such Performance Share Units shall be forfeited and canceled as of the date of termination.

(ii) Disability or Retirement. If the Participant's employment is terminated due to Disability or Retirement prior to the Vesting Date, then, on the Vesting Date the Participant shall be deemed vested to the extent of the number of Performance Share Units that would have vested had the Participant's Service continued until the Vesting Date, subject to achievement of the Goals, multiplied by a fraction, the numerator of which is the number of days elapsed from the commencement of the Performance Period through the date of the Participant's termination due to Disability or Retirement, as applicable, and the denominator of which is the number of days in the Performance Period, and the remainder of the Performance Share Units shall be forfeited and canceled as of the date of such termination due to Disability or Retirement, as applicable. Vested Performance Share Units shall be settled as set forth in Section 3.

(iii) Any Other Reason. If the Participant's employment is terminated prior to the Vesting Date for any reason other than death, Disability or Retirement, all Performance Share Units shall immediately be forfeited and canceled effective as of the date of the Participant's termination.

(c) Change in Control. In the event of a Change in Control, then the Performance Share Units shall vest or continue as set forth in the Plan.

(d) Committee Discretion. Notwithstanding anything contained in this Agreement to the contrary, the Committee, in its sole discretion, may accelerate the vesting with respect to any Performance Share Units under this Agreement, at such times and upon such terms and conditions as the Committee shall determine.

3. Settlement of Performance Share Units. Subject to Section 7(d), the Company shall deliver to the Participant the value of one share of Stock in settlement of each outstanding Performance Share Unit that has vested as provided in Section 2 on the first to occur of (i) as soon as practicable after the date (the "Committee Determination Date") that the Committee determines that the Goals for the last Performance Period(s) have been satisfied, but in no event later than 2½ months after the end of the Performance Period; (ii) in the event of a Termination of Service due to death, January 31 of the year following the Participant's Termination of Service, (iii) with respect to Performance Share Units that are not a Specified Award, a Change in Control in which the Performance Share Units do not continue, and (iv) with respect to Performance Share

Units that are a Specified Award, a Specified Change in Control, in each case (A) by a cash payment equal to the Fair Market Value of the Stock on the Committee Determination Date or (B) if the Participant is a member of the Management Committee, at the Company's sole discretion, in Stock, by either (1) issuing one or more certificates evidencing the Stock to the Participant or (2) registering the issuance of the Stock in the name of the Participant through a book entry credit in the records of the Company's transfer agent or (C) in the event of settlement upon a Change in Control or a Specified Change in Control, as applicable, a cash payment equal to the Change in Control Price, in each case, multiplied by the number of vested Performance Share Units. With respect to Specified Awards, in the event of a Change in Control that is not a Specified Change in Control, if no Alternative Awards are available, or Alternative Awards may not be issued in a manner that complies with Section 409A of the Code or without the imposition of any additional taxes or interest under Section 409A of the Code, the Committee, as constituted immediately prior to the Change in Control, may determine that Specified Awards shall be settled through a cash payment equal to the Change in Control Price multiplied by the number of vested Specified Awards plus interest from the later of the Vesting Date and the Change in Control through the date of payment at a rate determined by the Committee as constituted immediately prior to the Change in Control to the extent that such settlement shall not subject the Participant to any additional taxes or interest under Section 409A of the Code or in such other manner that shall comply with Section 409A of the Code. No fractional shares of Stock shall be issued in settlement of Performance Share Units. Fractional Performance Share Units shall be settled through a cash payment equal to the Fair Market Value of the Stock on the Committee Determination Date.

4. Securities Law Compliance. Notwithstanding any other provision of this Agreement, the Participant may not sell the shares of Stock acquired upon vesting of the Performance Share Units unless such shares are registered under the Securities Act of 1933, as amended (the "Securities Act"), or, if such shares are not then so registered, such sale would be exempt from the registration requirements of the Securities Act. The sale of such shares must also comply with other applicable laws and regulations governing the shares and Participant may not sell the shares of Stock if the Company determines that such sale would not be in material compliance with such laws and regulations.

5. Participant's Rights with Respect to the Performance Share Units.

(a) Restrictions on Transferability. The Performance Share Units granted hereby are not assignable or transferable, in whole or in part, and may not, directly or indirectly, be offered, transferred, sold, pledged, assigned, alienated, hypothecated or otherwise disposed of or encumbered (including without limitation by gift, operation of law or otherwise) other than by will or by the laws of descent and distribution to the estate of the Participant upon the Participant's death; provided that the deceased Participant's beneficiary or representative of the Participant's estate shall acknowledge and agree in

writing, in a form reasonably acceptable to the Company, to be bound by the provisions of this Agreement and the Plan as if such beneficiary or the estate were the Participant.

(b) No Rights as Stockholder. The Participant shall not have any rights as a stockholder including any voting, dividend or other rights or privileges as a stockholder of the Company with respect to any Stock corresponding to the Performance Share Units granted hereby unless and until shares of Stock are issued to the Participant in respect thereof.

6. Adjustment in Capitalization. The number, class, Performance Goals or other terms of any outstanding Performance Share Units shall be adjusted by the Board to reflect any extraordinary dividend, stock dividend, stock split or share combination or any recapitalization, business combination, merger, consolidation, spin-off, exchange of shares, liquidation or dissolution of the Company or other similar transaction affecting the Stock in such manner as it determines in its sole discretion.

7. Miscellaneous.

(a) Binding Effect; Benefits. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective successors and assigns. Nothing in this Agreement, express or implied, is intended or shall be construed to give any person other than the parties to this Agreement or their respective successors or assigns any legal or equitable right, remedy or claim under or in respect of any agreement or any provision contained herein.

(b) No Right to Continued Employment. Nothing in the Plan or this Agreement shall interfere with or limit in any way the right of the Company or any of its Subsidiaries to terminate the Participant's employment at any time, or confer upon the Participant any right to continue in the employ of the Company or any of its Subsidiaries.

(c) Interpretation. The Committee shall have full power and discretion to construe and interpret the Plan (and any rules and regulations issued thereunder) and this Award. Any determination or interpretation by the Committee under or pursuant to the Plan or this Award shall be final and binding and conclusive on all persons affected hereby.

(d) Tax Withholding. The Company and its Subsidiaries shall have the right to deduct from all amounts paid to the Participant in cash (whether under the Plan or otherwise) any amount of taxes required by law to be withheld in respect of settlement of the Performance Share Units under the Plan as may be necessary in the opinion of the Employer to satisfy tax withholding required under the laws of any country, state, province, city or other jurisdiction, including but not limited to income taxes, capital gains taxes, transfer taxes, and social security contributions that are required by law to be withheld. The Company may require the recipient of the cash or shares of Stock, as applicable, to remit to the Company an amount in cash sufficient to satisfy the amount of

taxes required to be withheld as a condition to the payment of cash or issuance of shares in settlement of the Performance Share Units. The Committee may, in its discretion, require the Participant, or permit the Participant to elect, subject to such conditions as the Committee shall impose, to meet such obligations by having the Company withhold from the cash payment in settlement of the Performance Share Units or withhold or sell the least number of whole shares of Stock having a Fair Market Value sufficient to satisfy all or part of the amount required to be withheld. The Company may defer settlement until such requirements are satisfied.

(e) Forfeiture for Financial Reporting Misconduct. If the Company is required to prepare an accounting restatement due to material noncompliance by the Company with any financial reporting requirement under the securities laws, and if the Participant knowingly or grossly negligently engaged in the misconduct or knowingly or grossly negligently failed to prevent the misconduct as determined by the Committee, or if the Participant is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, then the Participant shall forfeit and disgorge to the Company (i) any Stock and cash received in respect of Performance Share Units granted or vested and all gains earned or accrued due to the sale of any Stock received in settlement of the Performance Share Units during the 12-month period following the filing of the financial document embodying such financial reporting requirement and (ii) any Stock and cash received in respect of Performance Share Units that vested based on the materially non-complying financial reporting. The Company may also cancel or reduce, or require a Participant to forfeit and disgorge to the Company or reimburse the Company for, any Performance Share Units granted or vested and any gains earned or accrued, due to the vesting or settlement of Performance Share Units or sale of any Stock acquired in settlement of a Performance Share Unit, to the extent permitted or required by, or pursuant to any Company policy implemented as required by, applicable law, regulation or stock exchange rule as from time to time may be in effect (including but not limited to The Dodd–Frank Wall Street Reform and Consumer Protection Act and regulations and stock exchange rules promulgated pursuant to or as a result of such Act) or otherwise.

(f) Applicable Law. This Agreement shall be governed by and construed in accordance with the law of the State of Delaware regardless of the application of rules of conflict of law that would apply the laws of any other jurisdiction.

(g) Limitation on Rights; No Right to Future Grants; Extraordinary Item of Compensation. By entering into this Agreement and accepting the Performance Share Units evidenced hereby, the Participant acknowledges: (a) that the Plan is discretionary in nature and may be suspended or terminated by the Company at any time; (b) that the Award does not create any contractual or other right to receive future grants of Awards; (c) that participation in the Plan is voluntary; (d) that the value of the Performance Share Units is not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service

awards, pension or retirement benefits or similar payments; and (e) that the future value of the Stock is unknown and cannot be predicted with certainty.

(h) Employee Data Privacy. By entering into this Agreement and accepting the Performance Share Units evidenced hereby, the Participant: (a) authorizes the Company and the Participant's employer, if different, any agent of the Company administering the Plan or providing Plan recordkeeping services, to disclose to the Company or any of its affiliates any information and data the Company requests in order to facilitate the grant of the Award and the administration of the Plan; (b) waives any data privacy rights the Participant may have with respect to such information; and (c) authorizes the Company and its agents to store and transmit such information in electronic form.

(i) Consent to Electronic Delivery. By entering into this Agreement and accepting the Performance Share Units evidenced hereby, Participant hereby consents to the delivery of information (including, without limitation, information required to be delivered to the Participant pursuant to applicable securities laws) regarding the Company and the Subsidiaries, the Plan, this Agreement and the Performance Share Units via Company web site or other electronic delivery.

(j) Specified Employee Delay. Notwithstanding anything to the contrary in this Agreement, if settlement is to occur upon a Termination of Service other than due to death or Disability and the Participant is a Specified Employee and the Performance Share Units are a Specified Award, to the extent necessary to comply with, and avoid imposition on the Participant of any additional tax or interest imposed under, Section 409A of the Code, settlement shall instead occur on the first business day following the six-month anniversary of the Participant's Termination of Service (or, if earlier, upon the Participant's death), or as soon thereafter as practicable (but no later than 90 days thereafter).

(k) Headings and Captions. The section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

(l) Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument.



AMENDED AND RESTATED SEVERANCE PROGRAM FOR MANAGEMENT COMMITTEE MEMBERS

Purpose

- 1.1 This severance program is designed to provide Eligible Executives (as defined below) with guidelines relative to the benefits they would receive upon an involuntary termination of employment for business reasons whether or not in connection with the occurrence of a Change in Control in order to allow for equitable, objective and uniform treatment of similar situations.

Key Elements

- 2.1 This severance program is composed of the following key elements which will be offered in whole or in part by Domtar Corporation or its subsidiaries (the "Corporation"), depending on each situation:

- Severance allowance;
- Maintenance of medical and dental benefits;
- Outplacement services.

Any entitlement to payments or benefits other than those specifically addressed in this severance program shall be determined in accordance with the applicable plan or policy.

Eligible Executives

- 3.1 An executive is eligible for this severance program if he or she is a member of the Management Committee of the Corporation (as duly appointed by the Board of Directors of the Corporation (the "Board") upon recommendation of the Corporation's Chief Executive Officer, each an "Eligible Executive"), if the Eligible Executive's employment (a) is involuntarily terminated for business reasons by the Corporation or (b) in connection with a Change in Control is involuntarily terminated by the Corporation without Cause or is terminated by the Eligible Executive due to Good Reason, and in all cases the Eligible Executive executes, delivers and does not revoke within the applicable statutory time period, a written release (a "Release") in a form satisfactory to the Administrator; provided that, except as provided in Section 6.3 below, this severance program does not apply to those Eligible Executives for whom another program, agreement or arrangement is applicable. Except as provided otherwise in Section 3.2 below, an Eligible Executive will no longer be eligible for this severance program upon cessation of his or her service as a member of the Management Committee for reasons other than those listed in this paragraph.
- 3.2 Any individual who is an Eligible Executive at the commencement of the Protection Period or becomes an Eligible Executive during the Protection Period and prior to the Change in Control will continue to be an Eligible Executive for the duration of the Protection Period.
- 3.3 This severance program will not be offered if the Eligible Executive:
- is dismissed for Cause;
 - terminates employment voluntarily (other than for Good Reason in connection with a Change in Control as contemplated by Section 7.5); or
 - is offered continuous employment in a comparable position with comparable terms and conditions of employment by a purchaser of a business from the Corporation (and provided that the Eligible Executive does not have Good Reason as a result).

Effective Date of Program

4.1 This amended and restated severance program will take effect [Date].

Restriction

5.1 If on the date an Eligible Executive's employment is terminated the Eligible Executive is receiving benefits under the Corporation's Short-Term or Long-Term Disability Plans, the Eligible Executive will not be entitled to a severance allowance under this severance program. However, if the Eligible Executive ceases to be eligible for those benefits for reasons other than retirement, the Eligible Executive will be entitled to the severance program if he or she regains the ability to carry out his or her duties prior to the effective date of his or her termination of employment.

Administration

6.1 This severance program will be administered by the Administrator, whose actions and decisions will be conclusive and binding on the Eligible Executive and on the Corporation.

6.2 Subject to Section 6.3, the Corporation reserves the right to terminate, delete, amend or add to this severance program or any of its provisions at any time and from time to time.

6.3 Notwithstanding anything in this severance program to the contrary, during the Protection Period, the Corporation may not amend, modify, suspend or terminate this severance program, in whole or in part, in a manner that is materially adverse to any Eligible Executive (including but not limited to the removal of an individual as an Eligible Executive or any reduction in the applicable severance allowance) without the written consent of such Eligible Executive or, prior to the consummation of a Change in Control, the Administrator. With respect to any program, agreement, or arrangement adopted, established, or entered into during the Protection Period, no such program, agreement, or arrangement shall replace this severance program and the severance program shall continue to apply to each Eligible Executive, except to the extent such Eligible Executive expressly agrees in writing that this severance program does not apply to such Eligible Executive or as expressly approved by the Administrator prior to the consummation of a Change in Control.

Severance Allowance

7.1 An Eligible Executive shall be entitled to a severance allowance of 12 months of base salary, plus an additional 3 months of base salary for each full year of continuous service as a member of the Management Committee, up to a maximum of 24 months of base salary (the "Severance Period"), unless otherwise determined by the Administrator, upon recommendation of the Corporation's Chief Executive Officer.

7.2 The base salary used to calculate an Eligible Executive's severance allowance will be the Eligible Executive's base salary on the date his or her employment is terminated. The minimum payments as outlined by the different provincial legislations will be paid within the time limit prescribed by the applicable legislation. The remaining balance will be paid in a lump sum, except if the Eligible Executive's severance allowance is subject to taxation in the United States, the severance allowance shall be paid as described below under the heading "Provisions Applicable to U.S. Taxpayers."

7.3 The severance allowance pursuant to this severance program shall not be less than that required by the applicable legislation. However, this severance program shall not be interpreted or applied as a minimum severance allowance.

7.4 The severance allowance pursuant to this severance program includes any pay in lieu of notice and severance pay required by law.

7.5 Notwithstanding the allowance amounts described above, if, within 3 months prior to or 24 months following the occurrence of a Change in Control, an Eligible Executive's employment is involuntarily terminated without Cause or the Eligible Executive voluntarily terminates his or her employment for Good Reason, such termination shall be deemed to be in connection with a Change in Control, and the severance allowance will be equal to the sum of (A) 24 months of base salary and (B) two (2) times the Eligible Executive's target bonus award under the Domtar Corporation Annual Incentive Plan (such plan and any successor or additional annual incentive plan, "AIP"), regardless of the employee's actual continuous service as a member of the Management Committee. For this purpose, the Severance Period will be equal to 24 months, and base salary and target bonus award shall be as of the date of termination or the occurrence of the Change in Control, whichever is greater, and, subject to Section 7.2, shall be paid within sixty (60), but in no event later than March 15 of the year after, after the termination date.

The following definitions apply:

- (1) "Administrator" means the Human Resources Committee of the Board (the "HR Committee"), or such other committee as shall be designated by the Board to administer this severance program.
- (2) "Cause" will have the same definition as in the Domtar Corporation 2007 Omnibus Incentive Plan ("Omnibus Plan"), disregarding any amendments to such plan effected during the Protection Period.
- (3) "Change in Control" will have the same definition as in the Omnibus Plan, disregarding any amendments to such plan effected during the Protection Period.
- (4) "Good Reason" means the occurrence of any of the following after a Change in Control:
 - (a) a material reduction by the Corporation in the Eligible Executive's base salary or target annual bonus, as in effect immediately prior to the Change in Control or as increased from time to time. Eligible Executive shall not have a basis to resign for Good Reason if (i) such reduction is part of an across-the-board reduction in base salary rate or target annual incentive opportunity similarly affecting other Management Committee members or (ii) no bonus is paid, or the amount of the bonus is reduced as a result of the failure of the Eligible Executive or the Corporation to achieve the applicable performance goals;
 - (b) a material diminution in the Eligible Executive's position, duties or responsibilities (including due to the assignment to the Eligible Executive of duties materially inconsistent with his or her position, duties or responsibilities as in effect immediately prior to Change in Control), excluding for this purpose (i) a change in title or reporting relationship alone, and (ii) an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Corporation promptly after receipt of notice thereof given by the Eligible Executive;
 - (c) a requirement that the Eligible Executive move his or her principal place of business to a location that is (i) more than 50 miles from the location at which the Eligible Executive was stationed immediately prior to a Change in Control, and (ii) farther from the Eligible Executive's primary residence than was the location at which the Eligible Executive was stationed immediately prior to the Change in Control; and
 - (d) a material breach by the Corporation of any agreement under which the Eligible Executive provides services in each case, provided that the Eligible Executive provides written notice to the Corporation of the condition giving rise to Good Reason within 90 days of the initial existence of the condition, such condition is not remedied within 30 days of receipt of such notice, and the Eligible Executive terminates employment within two years of the occurrence of the Change in Control.
- (5) The term "Corporation" as used in this severance program shall mean the Corporation as hereinbefore defined and any successor or assignee to the business or assets which by reason hereof becomes bound by this severance program.
- (6) The term "Protection Period" means period that begins on the earlier of the date the Corporation enters into a definitive written agreement pursuant to which it will effect a transaction that will result in a Change in Control or the date of a Change in Control through the second anniversary of the consummation of the Change in Control (as extended as provided below, the "Protection Period"), provided that, with respect to any Eligible Executive whose employment is terminated in a manner described in Section 3.1 during such Protection Period, the Protection Period with respect to such Eligible Executive shall extend until the date all benefits under this severance program have been paid or provided to such Eligible Executive.

Annual Incentive Plan

- 8.1 An Eligible Executive who has been involuntarily terminated by the Corporation for business reasons, whether or not in connection with a Change in Control, or who in the three months prior to or 24 months following a Change in Control has terminated his or her employment for Good Reason or has been terminated by the Corporation without Cause will be eligible for a prorated bonus under the AIP for the year in which the termination of employment occurred. Payment will be based on the pre-established goals under the AIP for the applicable plan year accrued on the books and records of the Company as at the end of the fiscal quarter ended immediately prior to such termination (or such greater amount as is payable under the AIP) and the Eligible Executive's performance. It will be calculated prorated on base salary earned during the year of termination. Payment will be made at the same

time as the severance allowance is payable and in any event no later than March 15 of the calendar year following the year of termination. In situations where an Eligible Executive is terminated prior to the payment of the previous year's AIP, he or she will also be eligible for payment of the previous year's AIP, which will also be paid at the same time payment is made to all other employees under the AIP and in any event no later than March 15 of the year following the year in which the related services were performed.

Other Benefits

- 9.1 A terminated Eligible Executive's coverage under the Corporation's medical and dental insurance policies will remain in effect until the last day of the Severance Period, except if the Eligible Executive's benefits are subject to taxation in the United States, as described below under the heading "Provisions Applicable to U.S. Taxpayers." In the event that the Eligible Executive obtains equivalent or better coverage elsewhere, this coverage will terminate.
- 9.2 Notwithstanding Section 9.1 above, the group insurance coverage to which the Eligible Executive was subject immediately prior to his or her termination will be maintained, to the extent provided by applicable law.
- 9.3 A terminated Eligible Executive will be entitled to reasonable outplacement services. This benefit will terminate in the event the Eligible Executive obtains new employment. In no event will this benefit continue beyond December 31 of the second year beginning after the date of termination.

Successors

- 10.1 Any successor of or to the Corporation, its assets or its businesses (whether direct or indirect, by purchase, merger, consolidation or otherwise), shall assume the obligations under this severance program in the same manner and to the same extent that the Corporation would be obligated under this severance program if no succession had taken place. In the case of any transaction in which a successor would not be bound by the foregoing provision or by operation of law be bound by this severance program, the Corporation shall require such successor expressly and unconditionally to assume and agree to perform the Corporation's obligations under this severance program, in the same manner and to the same extent that the Corporation would be required to perform if no such succession had taken place.

Provisions Applicable to U.S. Taxpayers

- 11.1 Any payment or benefit provided under this severance program that is subject to U.S. taxation and section 409A of the U.S. Internal Revenue Code of 1986, as amended (the "Code") and the applicable rules, regulations and guidance promulgated thereunder ("Section 409A"), will only be paid or provided if the termination of an Eligible Executive's employment for business reasons by the Corporation or other termination entitling the Eligible Executive to benefits under this severance program constitutes a "Separation from Service" within the meaning of Section 409A.
- 11.2 Payments or benefits subject to U.S. taxation shall be administered and paid as follows:
- Subject to the execution and delivery by the Eligible Executive of a Release within 45 days of the date of his or her Separation from Service and such Release becoming irrevocable (such execution and revocation period, the "Release Period"):
- The Eligible Executive's severance allowance will be paid in a lump sum within 90 days of the date of the Eligible Executive's Separation from Service, but in no event later than March 15 of the calendar year following the calendar year in which the Eligible Executive's Separation from Service takes place provided that, if such 90-day period spans more than one calendar year, the payment shall be made in the second calendar year.
 - If the Eligible Executive would otherwise be eligible to elect continued health coverage under Section 4980B of the Code ("COBRA") (i) if permitted by the applicable plan and applicable law, the Eligible Executive's coverage under the applicable health insurance policies maintained by the Corporation will remain in effect or (ii) if not so permitted, the Corporation shall pay or reimburse the Eligible Executive for the excess of the cost of COBRA coverage over what would have been the Eligible Executive's cost for continued coverage under the applicable health insurance policies had he or she been permitted to continue coverage, in each case until the earlier to occur of the last day of the Severance Period and the last day on which the Eligible Executive would otherwise be eligible for COBRA coverage if he or she had elected such coverage and paid the applicable premiums. In the event that the Eligible Executive obtains equivalent or better coverage elsewhere, this coverage will terminate.

- If the Eligible Executive would not otherwise be eligible to elect COBRA coverage, the Eligible Executive's coverage under the applicable health insurance policies maintained by the Corporation will remain in effect until the earlier to occur of the last day of the Severance Period and the 18-month anniversary of the date of the Eligible Executive's Separation from Service. In the event that the Eligible Executive obtains equivalent or better coverage elsewhere, this coverage will terminate.
- 11.3 The amount of any reimbursement or in-kind benefit provided under this severance program in one taxable year shall not affect the amount of any reimbursement or in-kind benefit provided in any other taxable year (except that a plan providing medical or health benefits may impose a generally applicable limit on the amount that may be reimbursed or paid). Any reimbursement shall be paid to the Eligible Executive on or before the last day of the taxable year following the taxable year in which the expense was incurred. No entitlement to any reimbursement or in-kind benefit provided under this severance program shall be subject to liquidation or exchange for any other benefit.
- 11.4 Notwithstanding anything to the contrary contained herein, if an Eligible Executive is a "specified employee" within the meaning of any specified employee policy of the Corporation or, if no such policy is in effect at the time of termination, Section 409A, (i) any portion of an Eligible Executive's severance allowance under this severance program that is subject to Section 409A (after taking into account all exclusions applicable to the Eligible Executive's severance allowance under Section 409A) and that would otherwise be payable or provided within six months following the date of the Eligible Executive's Separation from Service will be accumulated and paid on the first payroll date following the six-month anniversary of the date of the Eligible Executive's Separation from Service and (ii) the Eligible Executive will pay the full cost of any non-COBRA health care benefits provided to him or her under Section 9.1 that are subject to Section 409A for the six-month period following the date of his or her Separation from Service, with the full amount of such costs to be reimbursed to the Eligible Executive on the first payroll date following the six-month anniversary of the date of his or her Separation from Service, in each case to the extent necessary to comply with Section 409A.
- 11.5 Neither the Corporation nor any of its directors, officers or employees shall have any liability to an Eligible Executive in the event Section 409A applies to any benefit provided pursuant to this severance program in a manner that results in adverse tax consequences for such Eligible Executive or any of his or her beneficiaries or transferees. The Administrator may unilaterally amend, modify or terminate any benefit provided under this severance program if it determines, in its sole discretion, that such amendment, modification or termination is necessary or advisable to comply with applicable U.S. law as a result of changes in law or regulation or to avoid the imposition of an additional tax, interest or penalty under Section 409A.

Additional Administrative Matters

- 12.1 The Administrator shall have complete discretion to interpret where necessary all provisions of the severance program (including, without limitation, by supplying omissions from, correcting deficiencies in, or resolving inconsistencies or ambiguities in, the language of the severance program), to make factual findings with respect to any issue arising under the severance program, to determine the rights and status under the severance program of Eligible Executive or other persons, to resolve questions (including factual questions) or disputes arising under the severance program and to make any determinations with respect to the benefits payable under the severance program and the persons entitled thereto as may be necessary for the purposes of the severance program. Without limiting the generality of the foregoing, the Administrator is hereby granted the authority (i) to determine whether a particular employee is an Eligible Executive, and (ii) to determine if a person is entitled to benefits hereunder and, if so, the amount and duration of such benefits. The Administrator may delegate, subject to such terms as the Administrator shall determine, any of its authority hereunder to such person or persons from time to time as it may designate. In the event of such delegation, all references to the Administrator in the severance program shall be deemed references to such delegates as it relates to those aspects of the severance program that have been delegated. The Administrator's determination of the rights of any person hereunder shall be final and binding on all persons.
- 12.2 All benefits payable hereunder that are subject to U.S. taxation and Section 409A of the Code shall be unfunded for purposes of section 83 of the Code and Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The severance program constitutes a mere promise by the Corporation to make such benefit payments in the future.
- 12.3 Notwithstanding any provision of the severance program to the contrary, in the event that it shall be determined by the Accounting Firm that any Payment to an Eligible Executive would be subject to the Excise Tax, the Accounting Firm shall determine whether to reduce the aggregate amount of the Payments payable to such Eligible Executive under this severance program (the "Severance Payments") to the Reduced Amount. The Severance Payments shall be reduced to the Reduced Amount only if the Accounting Firm determines that the Eligible Executive would have a greater Net After-Tax Benefit if the Eligible Executive's Severance Payments were reduced to the Reduced Amount.

If instead the Accounting Firm determines that the Eligible Executive would have a greater Net After-Tax Benefit if the Eligible Executive's Severance Payments were not reduced to the Reduced Amount, the Eligible Executive shall receive all Severance Payments to which the Eligible Executive is entitled under this severance program. For the avoidance of doubt, nothing in this severance program obligates the Corporation to pay, and the Corporation shall not pay, any Excise Tax imposed on any Eligible Executive.

If the Accounting Firm determines that the aggregate Severance Payments otherwise payable to an Eligible Executive should be reduced to the Reduced Amount pursuant to this Section 12.3, the Corporation shall promptly give the Eligible Executive notice to that effect and a copy of the detailed calculation thereof. All determinations made by the Accounting Firm under this Section 12.3 shall be binding upon the Corporation and the Eligible Executive and shall be made within fifteen (15) days after the Eligible Executive's termination date. The reduction of the Severance Payments to the Reduced Amount, if applicable, shall be made by first reducing, on a pro-rata basis, the cash payments under Section 8.1 and Section 7.5, then reducing the cash payments and benefits under Section 9.1, and then reducing, on a pro-rata basis, any benefits under Sections 9.2 and 9.3. All fees and expenses of the Accounting Firm shall be borne solely by the Corporation.

The following definitions apply for purposes of this Section 12.3.

- (1) "Accounting Firm" shall mean the Corporation's then current independent outside auditors, or such other nationally recognized certified public accounting firm as may be designated by the Administrator.
- (2) "Excise Tax" shall mean the excise tax imposed by Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.
- (3) "Net After-Tax Benefit" shall mean the aggregate Value of all Payments to an Eligible Executive, net of all taxes imposed on the Eligible Executive with respect thereto under Sections 1 and 4999 of the Code and under applicable state and local laws, as determined by the Accounting Firm.
- (4) "Payment" shall mean any payment, benefit or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Eligible Executive, whether paid or payable pursuant to the severance program or otherwise.
- (5) "Reduced Amount" shall mean the greatest amount of Severance Payments that can be paid that would not result in the imposition of the Excise Tax upon an Eligible Executive if the Accounting Firm determines to reduce Severance Payments pursuant to this Section 12.3.
- (6) "Value" of a Payment shall mean the economic present value of a Payment, as determined by the Accounting Firm for purposes of Section 280G of the Code.

- 12.4 Each person who is or shall have been a member of the HR Committee or other Administrator and each delegate of such Committee or Administrator shall be indemnified and held harmless by the Corporation against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be made a party or in which he or she may be involved in by reason of any action taken or failure to act under this severance program and against and from any and all amounts paid by him or her in settlement thereof, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided that the Corporation is given an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it personally. The foregoing right of indemnification shall not be exclusive and shall be independent of any other rights of indemnification to which such persons may be entitled under the Corporation's articles of incorporation or by-laws, by contract, as a matter of law, or otherwise.

Claims for Benefits

- 13.1 Each terminated Eligible Executive or other person who has been determined to be eligible to receive benefits under this severance program may contest the administration of the benefits by completing and filing a written claim for reconsideration with the Administrator ("claimant"). If the Administrator denies a claim in whole or in part, the Administrator will provide notice to the claimant, in writing, within 90 days after the claim is filed, unless the Administrator determines that an extension of time for processing is required. In the event that the Administrator determines that such an extension is required, written notice of the extension will be furnished to the claimant prior to the termination of the initial 90-day period. The extension will not exceed a period of 90 days from the end of the initial period of time and the extension notice will indicate the special circumstances requiring an extension of time and the date by which the Administrator expects to render the benefit decision.

The written notice of a denial of a claim will set forth, in a manner calculated to be understood by the claimant:

- the specific reason or reasons for the denial;
- reference to the specific severance program provisions on which the denial is based;
- a description of any additional material or information necessary for the terminated claimant to perfect the claim and an explanation as to why such information is necessary; and
- an explanation of the severance program's claims procedure and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under section 502(a) of ERISA following an adverse benefit determination on appeal.

13.2 The claimant or his or her duly authorized representative will have an opportunity to appeal a claim denial to the Administrator for a full and fair review. The Eligible Executive or his or her duly authorized representative may:

- request a review upon written notice to the Administrator within 60 days after receipt of a notice of the denial of a claim for benefits;
- submit written comments, documents, records, and other information relating to the claim for benefits; and
- examine the severance program and obtain, upon request and without charge, copies of all documents, records, and other information relevant to the claimant's claim for benefits.

The Administrator's review will take into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered by the Administrator in the initial benefit determination. A determination on the review by the Administrator will be made not later than 60 days after receipt of a request for review, unless the Administrator determines that an extension of time for processing is required. In the event that the Administrator determines that such an extension is required, written notice of the extension will be furnished to the claimant prior to the termination of the initial 60-day period. The extension will not exceed a period of 60 days from the end of the initial period and the extension notice will indicate the special circumstances requiring an extension of time and the date on which the Administrator expects to render the determination on review.

The written determination of the Administrator will set forth, in a manner calculated to be understood by the claimant:

- the specific reason or reasons for the decision;
- reference to the specific severance program provisions on which the decision is based;
- the claimant's right to receive, upon request and without charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim for benefits; and
- a statement of the claimant's right to bring a civil action under section 502(a) of ERISA.

A claim or action (i) to recover benefits allegedly due under the severance program or by reason of any law, (ii) to enforce rights under the severance program, (iii) to clarify rights to future benefits under the severance program, or (iv) that relates to the severance program and seeks a remedy, ruling or judgment of any kind against the severance program or a severance program fiduciary or party in interest (collectively, a "Judicial Claim"), may not be commenced in any court or forum until after the claimant has exhausted the severance program's claims and appeals procedures set forth above (an "Administrative Claim"). A claimant must raise every argument and/or produce all evidence the claimant believes supports the claim or action in the Administrative Claim and shall be deemed to have waived any argument and/or the right to produce any evidence not submitted to the Administrator as part of the Administrative Claim.

13.3 Any Judicial Claim must be commenced in the appropriate court or forum no later than 18 months from the earliest of (i) the date the first benefit payment was made or allegedly due; (ii) the date the Administrator first denied the claimant's request or (iii) the first date the claimant knew or should have known the principal facts on which such claim or action is based; provided, however, that, if the claimant commences an Administrative Claim before the expiration of such 18 month period, the period for commencing a Judicial Claim shall expire on the later of the end

of the 18 month period and the date that is three months after the claimant's appeal of the initial denial of his or her Administrative Claim is finally denied, such that the claimant has exhausted the severance program's claims and appeals procedures. Any claim or action that is commenced, filed or raised, whether a Judicial Claim or an Administrative Claim, after expiration of such 18-month period (or, if applicable, expiration of the three-month period following exhaustion of the severance program's claims and appeals procedures) shall be time-barred. Filing or commencing a Judicial Claim before the claimant exhausts the Administrative Claim requirements shall not toll the 18-month limitations period (or, if applicable, the three month limitations period).

December 11, 2019

**AMENDED AND RESTATED
DB SERP FOR MANAGEMENT
COMMITTEE MEMBERS OF DOMTAR**

As in effect on March 7, 2007, amended and restated on October 1, 2012, July 30, 2013, January 1st, 2015, on December 7, 2016 and further on December 9, 2020

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1. Introduction

- 1.1 The present document constitutes the DB SERP for Management Committee Members of Domtar, hereinafter called the “DB SERP”.
- 1.2 The purpose of the DB SERP is to provide members of the Management Committee of the Company with additional retirement benefits in excess of those that may be payable in accordance with the provisions of the Base Plans and of the DC SERP, as defined below.
- 1.3 Effective December 9, 2020, the DB SERP is closed to new membership. However, Management Committee Members of Domtar participating in the DB SERP on that date will continue to accumulate benefits in accordance with its provisions.

2. Definitions

- 2.1 **Accrued Pension:** at any date, the lesser of (a) and (b) defined below:
- a) two percent (2%) of the Best Average Earnings on such date multiplied by the number of years of Credited Service on such date;
 - b) fifty percent (50%) of the Best Average Earnings on such date.
- 2.2 **Actuarial Equivalent:**
- a) For a Member employed in Canada: Actuarial Equivalent Value as defined under the Base Canadian Pension Plan;
 - b) For a Member employed in the United States: Actuarial Equivalent as defined under the Base U.S. Pension Plan.
 - c) For a Member employed in both Canada and the United States: subject to Section 2.28, with respect to benefits or deemed benefits under the Base Canadian Pension Plan, Actuarial Equivalent Value as defined in the Base Canadian Pension Plan and with respect to benefits or deemed benefits under the Base U.S. Pension Plan, Actuarial Equivalent as defined in the Base U.S. Pension Plan
- 2.3 **Base Canadian Pension Plan:** the Domtar Pension Plan for Non-Negotiated Employees, as may be amended from time to time.
- 2.4 **Base Plans:** subject to Section 2.28,
- a) For a Member employed in Canada: the Base Canadian Pension Plan;
 - b) For a Member employed in the United States: the Base U.S. Pension Plan and the Base U.S. Savings Plan.

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- 2.5 **Base U.S. Pension Plan:** the Domtar U.S. Salaried Pension Plan, as may be amended from time to time.
- 2.6 **Base U.S. Savings Plan:** the Domtar U.S. Salaried 401(k) Plan and the Domtar Personal Care 401(k) Plan, as may be amended from time to time.
- 2.7 **Best Average Earnings:** shall mean the highest annualized average Earnings of the Member during any 60 consecutive months of membership in the Base Plans during the 120 months of membership in the Base Plans prior to the date of Separation from Service. In the event that there are less than 60 consecutive months, Best Average Earnings shall be calculated by dividing the total Earnings of the Member during the period of membership in the Base Plans by the number of months during such period in respect of any part of which he shall have had Earnings and multiplying the result by 12.
- For the purpose of this Section 2.7, for a Member employed both in Canada and in the United States, consecutive periods of membership under the Base Canadian Pension Plan, the Base U.S. Pension Plan and the Base U.S. Savings Plan, and any periods in which a Member is deemed to have Credited Service under Section 2.11, shall be deemed consecutive membership in the Base Plans. To the extent necessary, earnings shall be converted to the currency to be used for payment pursuant to Section 18.1 based on the average exchange rate for the year or shorter period earned.
- For the purpose of this Section 2.7, bonuses are attributed to the month during which they are actually paid. Notwithstanding, should the timing of bonus payments differ from year to year, the number of bonus payments recognized shall not exceed the number of years included in the averaging period, as determined by the HR Committee. In addition, Earnings for a given month (other than bonuses) are deemed to be equal to the Earnings for the corresponding calendar year (other than bonuses) divided by the number of months of membership in the Base Plans during the said calendar year.
- 2.8 **Board:** the Board of Directors of Domtar Corporation.
- 2.9 **Code:** the U.S. Internal Revenue Code of 1986, as amended.
- 2.10 **Company:** means Domtar Corporation and any of its subsidiaries or affiliated companies.
- 2.11 **Credited Service:** shall mean the period of service with the Company, before the executive's Separation from Service, that starts with the date the executive becomes a Member of the DB SERP and ends on the later of October 1, 2012 and the date the executive ceases to be a member of the DB SERP, as defined in Section 2.18, during which:
- a)

For a Member employed in Canada: the Member is accruing credited service under the DB Option of the Base Canadian Pension Plan or the Company is contributing on behalf of the Member under the DC Option of the Base Canadian Pension Plan, or would be contributing if it were not for the tax limits;

- b) For a Member employed in the United States: the Company is contributing on behalf of the Member under the Base U.S. Savings Plan, or would be contributing if it were not for applicable Code limits and assuming the Member elected to contribute to the Base U.S. Savings Plan.
- c) For a Member with periods of employment in both Canada and the United States: subject to Section 2.28, during the period the Member is employed in Canada, the Member is accruing credited service as provided in paragraph (a) of this Section 2.11 and, during the period the Member is employed in the United States, the Company is contributing on behalf of the Member as provided in paragraph (b) of this Section 2.11, provided that, unless Section 2.23(e) of the DC SERP for Designated Executives of Domtar applies to the Member for a particular calendar year during which such Member transitions from one country to another, the accruals or contributions, as applicable, at the commencement of the particular calendar year shall be deemed to continue in the same Base Plan for the remainder of the particular calendar year (or, if earlier, until a Separation from Service) without duplication and without a break in service other than as a result of a Separation from Service.

2.12 **DC SERP:** the DC SERP for Designated Executives of Domtar and the DC SERP for Designated Executives of Domtar Personal Care, as may be amended from time to time.

2.13 **Deemed Account Balance:**

- a) With respect to a defined contribution provision of the Base Plans, subject to Section 2.28, the account balance, for the same period as used to determine the Credited Service with reference to the applicable Base Plan, calculated on the following basis:
 - i) Deemed contributions are determined assuming the Member has elected to contribute at the maximum rate allowed under the applicable Base Plans, with the matching of Company contributions in accordance with the respective Base Plans provisions;
 - ii) Deemed credited interest is calculated on the Deemed Account Balance at the beginning of the calendar year and on the deemed Company contributions during the calendar year, assuming such deemed contributions, as applicable, are made in the middle of the year, at the same rate of return as credited under the DC SERP.
- b) With respect to the DC SERP, the actual notional account balance of the Member.

2.14 **Default:** shall have the meaning given to it in the Trust Agreement.

2.15 **Earnings:** subject to Section 2.28,

- a) For a Member employed in Canada: Earnings as defined under the Base Canadian Pension Plan;
- b) For a Member employed in the United States: Compensation as defined under the Base U.S. Savings Plan;
With the exception that bonuses recognized in a) or b) above in a given year will not exceed the lesser of:
- c) The actual target bonus, as determined from time to time by the Company for the Member; and
- d) A target bonus of 50% of the previous year's salary.

For the period of disability recognized pursuant to Section 12 of the DB SERP, Earnings are deemed to be equal to the Member's salary rate on the day his disability begins.

2.16 **HR Committee:** the Human Resources Committee of the Board.

2.17 **Management Committee:** the Management Committee of the Company as appointed by the Board upon recommendation of the Chief Executive Officer of the Company.

2.18 **Member:**

- a) An executive of the Company from the date he is designated as a member of the Management Committee and who is entitled to benefits under the DB SERP; or
- b) Any former members of the Management Committee as recommended by the Company's Chief Executive Officer; or
- c) Any other executive of the Company as recommended by the HR Committee.

Notwithstanding the above, a member of the Management Committee covered under a grandfathered SERP arrangement would not be a Member of the DB SERP. For convenience, a list of such members of the Management Committee covered under a grandfathered SERP arrangement as at March 7, 2007 is included in the Appendix.

Notwithstanding the above, after December 9, 2020, the DB SERP shall be closed to new Members and an executive of the Company shall not become a Member after that date.

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- 2.19 **Normal Retirement Date:** with respect to a Member, the first day of the month coinciding with or immediately following the Member's sixty-fifth (65th) birthday.
- 2.20 **Refundable Tax:** shall have the meaning given to it in the Trust Agreement.
- 2.21 **Section 409A:** section 409A of the Code and the rules, regulations and guidance promulgated thereunder.
- 2.22 **Separation from Service:** occurs (or a Member Separates from Service) when
- a) For a U.S. Taxpayer: the Member ceases to be employed by the Company and all entities considered a single employer with the Company under Code Sections 414(b) and (c) as a result of the Member's death, retirement, or other termination of employment. Whether a Separation from Service takes place is based on all the relevant facts and circumstances and determined in accordance with Section 409A.
 - b) For a Member other than a U.S. Taxpayer: the Member ceases to be employed by the Company as a result of the Member's death, retirement, or other termination of employment.
- 2.23 **Trust Agreement:** the agreement between the Company or a subsidiary or affiliated company and a Trustee, as may be entered into in accordance with Section 14.1 or Section 14.2 of the DB SERP, as applicable.
- 2.24 **Trust Fund:** shall have the meaning given to it in the Trust Agreement.
- 2.25 **Trustee:** the trustee party to the Trust Agreement.
- 2.26 **U.S. Taxpayer:** a Member who
- a) Is a U.S. citizen; or
 - b) Is a foreign national/U.S. permanent resident ("green card" holder); or
 - c) Is a foreign national who meets the "substantial physical presence" test during an applicable calendar year;
 - d) Is a "dual status" individual and either
 - i) Who declares that he is a U.S. Taxpayer (under (a), (b), or (c) above); or
 - ii) Who the Company determines is a U.S. Taxpayer (under (a), (b), or (c) above);
 - e) Is subject to U.S. federal income tax under the terms of the Canada-United States Tax Convention (1980) and the Protocols in effect thereunder; or

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- f) Whose benefits under this DB SERP are otherwise subject to taxation in the U.S.

Notwithstanding the foreign Member declaration of U.S. Taxpayer status, and unless proven otherwise, if the Company's payroll, human resources, or other records indicate that the Member is a U.S. Taxpayer, then the member shall be deemed to be a U.S. Taxpayer for the purposes of the DB SERP.

2.27 For the purposes of the present document, the terms and expressions listed below shall have the meaning given to them in the Base Plans:

- a) Base Canadian Pension Plan:
- Balanced Fund
 - DB Option
 - DC Option
- b) Base U.S. Savings Plan
- Balanced Index Fund

2.28 For the purposes of the present document:

- a) If a Member has periods of employment in both Canada and the United States, then, except as expressly provided otherwise, the provisions of the present document with respect to Members employed in Canada shall apply with respect to such periods as the Member is employed in Canada and the provisions of the present document with respect to Members employed in the United States shall apply with respect to such periods as the Member is employed in the United States;
- b) A Member shall be considered to be employed in the country of the Member's primary payroll location unless the Member and the Company agree otherwise;
- c) In no event shall a Member be deemed to be employed in two locations simultaneously; and
- d) Unless Section 2.23e) of the DC SERP for Designated Executives of Domtar applies to a Member for the applicable calendar year, deemed Member contributions and deemed Company contributions shall be deemed to be made to only one country's Base Plans in a single calendar year, with the deemed contributions based on the Base Plans of the country of the Member's primary payroll location at the commencement of the applicable calendar year.

3.

Normal Retirement

A Member who Separates from Service, for a reason other than death, on or beyond his Normal Retirement Date, shall receive from the Company, in accordance with the DB SERP, a monthly pension of one twelfth of the excess of (a) over (b) below:

- a) His Accrued Pension, determined on his date of Separation from Service;
- b) With respect to the same years of service recognized as Credited Service under the DB SERP, the sum of the annual amount of the lifetime pension to which the Member is entitled on his date of Separation from Service in accordance with:
 - i) For a Member employed in Canada: the DB Option and/or the DC Option of the Base Canadian Pension Plan and the DC SERP. For the purposes of this paragraph, the annual amount of lifetime pension to which the Member is entitled under the DC Option of the Base Canadian Pension Plan and under the DC SERP is equal to the Actuarial Equivalent of the Deemed Account Balance of the Member in each of these plans;
 - ii) For a Member employed in the United States: the Base U.S. Pension Plan, the Base U.S. Savings Plan and the DC SERP. For the purposes of this paragraph, the annual amount of pension to which the Member is entitled under the Base U.S. Savings Plan and under the DC SERP is equal to the Actuarial Equivalent of the Deemed Account Balance of the Member in each of these plans.
 - iii) For a Member with periods of employment in both Canada and the United States, subject to Section 2.28, with respect to periods the Member was employed in Canada, the amount determined in accordance with clause (i) of this paragraph (b), plus, with respect to the periods the Member was employed in the United States, the amount determined in accordance with clause (ii) of this paragraph (b), provided that, unless Section 2.23e) of the DC SERP for Designated Executives of Domtar applies to such Member in the applicable year, with respect to a calendar year in which the Member transitioned from one country to another, whichever of clause (i) or (ii) applies at the beginning of such calendar year shall apply for the remainder of such calendar year. The amount determined in accordance with either clause (i) or clause (ii) of this paragraph (b) which is in a currency other than the currency used for payment shall be converted to the currency to be used for payment using the exchange rate at the date of Separation from Service.

For the purposes of this paragraph (b), any amount of pension shall be determined disregarding any credit splitting resulting from a marriage breakdown.

Notwithstanding anything in this Section 3 to the contrary, any pension provided to a U.S. Taxpayer pursuant to this DB SERP, except as otherwise provided in Section 10, shall be paid in accordance with Section 9.3.

4. Early Retirement

A Member who Separates from Service, for a reason other than death after completing two (2) years of service as a Member before his Normal Retirement Date but on or after age 55, shall receive from the Company, in accordance with the DB SERP, a monthly pension determined as in Section 3 above, except that the Accrued Pension determined in accordance with paragraph (a) of Section 3 shall be reduced by one half of one percent (0.5%) for each calendar month his early retirement date precedes the date of his sixty second (62nd) birthday.

Notwithstanding anything in this Section 4 to the contrary, any pension provided to a U.S. Taxpayer pursuant to this DB SERP, except as otherwise provided in Section 10, shall be paid in accordance with Section 9.3.

5. Deferral of Early Retirement Pension

A Member, other than a U.S. Taxpayer, who Separates from Service, for a reason other than death, before his Normal Retirement Date but on or after age 55 and who is entitled to a pension from the DB SERP under Section 4 above, may elect to defer the commencement of this pension until the first day of any calendar month preceding or coinciding with his Normal Retirement Date.

In such event, the amount of pension to which he is entitled in accordance with the DB SERP shall be calculated as provided in Sections 3 and 4, adjusted to reflect the pension commencement date in the applicable calculations.

For more certainty, this Section 5 does not apply to a U.S. Taxpayer.

6. Non-Vested Termination of Employment

A Member who Separates from Service, for a reason other than death, before completing two (2) years of service as a Member is not entitled to any benefit under the DB SERP.

7. Vested Termination

7.1 A Member who Separates from Service, for a reason other than death, after completing two (2) years of service as a Member shall receive from the Company, in accordance with the DB SERP, a monthly pension determined as in Section 3 above, payable from his Normal Retirement Date.

Any increase in pension under the DB Option of the Base Canadian Pension Plan after Separation from Service and before payments commence shall have no impact on the pension payable from the DB SERP.

7.2

If the Member elects to receive the pension to which he is entitled in accordance with the Base Plans before his Normal Retirement Date, he will be assumed to have elected the same option for the pension due in accordance with Section 7.1 of the DB SERP. In this event, the pension due in accordance with the DB SERP shall be the Actuarial Equivalent of the pension payable from his Normal Retirement Date and shall commence on the same date as will the pension due in accordance with the Base Plans.

7.3 Upon his Separation from Service prior to age 55, instead of the pension described in paragraphs 7.1 and 7.2 above, the Member may elect to receive a single lump sum payment equal to the Actuarial Equivalent of the pension described in paragraph 7.1 above.

7.4 Notwithstanding anything to the contrary in this Section 7, a U.S. Taxpayer is only entitled to the single lump sum payment described in paragraph 7.3. For a U.S. Taxpayer, such payment shall be made in accordance with the provisions of Section 9.3. For more certainty, a U.S. Taxpayer is not entitled to the monthly pension payments described in paragraphs 7.1 and 7.2 and paragraph 9.1.

8. Normal Form of Pension

Subject to paragraphs 7.4 and 9.3 for a U.S. Taxpayer, the normal form of pension payable under the DB SERP shall consist of monthly benefits payable in equal amounts starting on the first day of the month in which the Member commences retirement, and on the first day of every subsequent month for the life of the Member. If the Member dies before 60 monthly payments have been made, payments under the DB SERP shall continue to his estate until 60 monthly payments have been made.

For the purposes of Sections 3, 4, 5 and 7 of the DB SERP, the pension amount due in accordance with the Base Plans and the DC SERP shall be that which corresponds to the normal form of pension of the DB SERP and shall exclude the additional pension resulting from excess contributions of the Base Plans, if any.

9. Optional Forms of Pension

9.1 The same optional forms of payment as under the DB Option of the Base Canadian Pension Plan are offered to a Member, other than a U.S. Taxpayer, who Separates from Service on or after age 55, in accordance with the DB SERP.

In this event, the payment of the pension due in accordance with the DB SERP shall be the Actuarial Equivalent of the pension under the normal form of payment described in Section 8. However, if the Member elects a form of pension under the DB Option of the Base Canadian Pension Plan that has an Actuarial Equivalent value greater than the Actuarial Equivalent value of the pension under the normal form of payment under the DB SERP, the DB SERP pension shall be reduced by the Actuarial Equivalent of such additional value under the Base Canadian Pension Plan.

9.2 Notwithstanding paragraph 9.1 above, with the consent of the HR Committee, instead of the pension described in Section 8 or in paragraph 9.1 above, the Member may elect to receive a single lump sum payment. For the purposes of this paragraph, the lump sum payment to which the Member is entitled is equal to the Actuarial Equivalent of the pension payable under the normal form of payment described in Section 8 above.

9.3 Notwithstanding anything to the contrary in Section 8 or in paragraphs 9.1 or 9.2 above, a U.S. Taxpayer is only entitled to the single lump sum benefit described in paragraphs 7.4 and 9.2 above. For a U.S. Taxpayer, such payment shall be made within 90 days following the six (6) month anniversary of the date of Separation from Service and on the same day that benefits under the DC SERP are paid to the U.S. Taxpayer. For more certainty, a U.S. Taxpayer is not entitled to the monthly pension payments described in Sections 3, 4 and 5, paragraphs 7.1, and 7.2, Section 8 and paragraph 9.1 or elect any other time or form of payment. The time of payment of benefits to U.S. Taxpayers under the DB SERP shall be the same as under this DC SERP.

10. Death Before Commencement of Pension Payments

If a Member Separates from Service by reason of death before the commencement of his pension payments, his estate shall receive a single lump sum payment equal to the Actuarial Equivalent of the benefits to which he would have been entitled under the DB SERP had he Separated from Service for a reason other than death on the day of his death. Any such payment shall be made within 90 days of the date of the Member's death.

11. Death After Commencement of Pension Payments

If a Member, other than a U.S. Taxpayer, dies after payment of his pension, determined in accordance with Articles 3, 4, 5 or paragraph 7.1 or 7.2, as applicable, has commenced, the death benefits shall be determined in accordance with the normal form of payment as described in Section 8, or the optional form of payment selected pursuant to paragraph 9.1, as applicable.

12. Disability

Despite the definition of Credited Service in Section 2.11 of the DB SERP, a Member who is considered disabled under the Base Plans, and who continues, on that basis, to accrue credited service, pension credits, or company contributions under such Base Plans, as the case may be, shall continue to accrue Credited Service for the purposes of the DB SERP while disabled, but only if the Member became so disabled while a member of the Management Committee.

Benefits will only be paid from the DB SERP upon the Member's actual Separation from Service, as described in Sections 3, 4, 5, 6 or 7 and, in the case of a U.S. Taxpayer, 9.3 above, as applicable.

For the purposes of Section 14 of the DB SERP, a disabled Member, other than a U.S. Taxpayer, who became disabled while a member of the Management Committee is deemed to be a member of the Management Committee until the date of his Separation from Service. Provided he is at least age 55 upon Separation from Service, the DB SERP benefits of such a disabled Member will start to be funded in accordance with Section 14 from the earlier of his Separation from Service and his attainment of age 60.

13. Administration

The HR Committee is responsible for the administration of the DB SERP, the supervision of its application and the interpretation of its provisions. With respect to Members who are not U.S. Taxpayers, the HR Committee may, at its discretion, approve other settlement options of benefits payable under this Plan.

14. Funding

This Section 14 does not apply to U.S. Taxpayers.

14.1 Funding from age 60 onward

This Section 14.1 is subject to Section 14.2.

Within 12 months of the date a Member, other than a U.S. Taxpayer, turns 60, and provided he is a member of the Management Committee on that date, the Company shall fund the benefits payable under the DB SERP by means of the Trust Fund contemplated in the Trust Agreement.

The Company may, at its discretion, fund a Member's benefit in a Trust Fund in which the Member is the only beneficiary or in a Trust Fund that includes multiple Members as beneficiaries.

Funding shall be effected by amortizing, over a five (5) year period, the cost of the benefits of the DB SERP for participation prior to age 60 and by paying, annually, the current service cost. The Base Canadian Pension Plan's actuary will determine the payments on account of amortization and current service using the actuarial assumptions and methods described in the Trust Agreement.

The Member's interest in the assets held under the Trust Agreement will vest only if:

- a) he dies in active service after age 60;
- b) he retires on or after the Normal Retirement Date and is a member of the Management Committee at the time of his retirement; or
- c) he is terminated by the Company within 12 months of a change of control of the Company as defined in the Trust Agreement.

The Trustee shall pay the benefits under the DB SERP to the Member from that point onward unless the Company notifies the Trustee that it intends to pay the benefits directly. Any amount remaining in the Trust Fund after all benefits required to be paid by the DB SERP have been paid, including any refundable tax balance, shall be returned to the Company. Any surplus assets in the Trust Fund, based on the last filed actuarial report, may be returned to the Company while the Trust Fund continues to exist. If the Member Separates from Service or ceases to be a member of the Management Committee prior to the Normal Retirement Date and the Trust Fund is intended to provide benefits in respect of only the applicable Member, the Trust Fund, including refundable tax, shall be returned to the Company and the Trust Agreement shall terminate.

14.2 Letters of Credit

- a) The Company shall arrange for the issuance of a new Letter of Credit, or the renewal of an existing Letter of Credit, in accordance with this Section 14.2, and in accordance with the Trust Agreement, in respect of benefits payable under the DB SERP on behalf of persons who were Members and were actively employed by the Company on the effective date of the Trust Agreement or who become Members thereafter, provided such persons or their survivors who are entitled to benefits under the DB SERP are not U.S. Taxpayers. On the effective date of the Trust Agreement, the DB SERP shall become a retirement compensation arrangement within the meaning of the Income Tax Act.

Coverage in respect of benefits under the DB SERP by the Letter of Credit shall cease once all benefits payable under the DB SERP on behalf of a person have been paid. Coverage in respect of benefits under the DB SERP by the Letter of Credit shall also cease with respect to all benefits when a Member becomes a U.S. Taxpayer.

The amount of the Letter of Credit shall be determined in accordance with an actuarial valuation performed in accordance with the Trust Agreement.

Coverage by the Letter of Credit for benefits payable under the DB SERP may be combined with coverage for benefits payable under the DC SERP for Designated Executives of Domtar and the Supplementary Pension Plan for Designated Managers of Domtar Inc.

If an event of Default occurs, benefits covered by the Letter of Credit shall be settled in a lump sum amount. Subject to the terms and assumptions specified in the Trust Agreement, in the case of Members covered by the Letter of Credit who are age 55 or over or on behalf of whom a pension is in payment, such lump sum amount shall be determined in a manner allowing the purchase of a prescribed annuity providing an after-tax pension amount reasonably similar to what would have been provided under the DB SERP if retirement had occurred on the date of Default if it had not already occurred; and such lump sum amount shall be used to purchase an annuity on behalf of the Member. Also, subject to the terms and assumptions specified in the

Trust Agreement, in the case of Members covered by the Letter of Credit who are aged less than 55, such lump sum amount shall be determined in a manner allowing to accumulate on an after-tax return basis to an amount that could be used by the Member to purchase a prescribed annuity at Normal Retirement Date that would provide an after-tax pension amount reasonably similar to the deferred pension that would have been provided under the DB SERP if Separation from Service had occurred on the date of Default. For greater certainty, the lump sum amount shall be nil if Separation from Service or early retirement was deemed to occur prior to attainment of two years of service as a Member.

- b) In the event that the conditions listed in Section 14.1 apply to a person, the Company may choose to fund benefits payable under this DB SERP in accordance with Section 14.1 using a separate Trust Fund or to maintain coverage under the Letter of Credit on behalf of this person in an amount at least equal to the amount of funding required under Section 14.1. Coverage in respect of benefits under the DB SERP by the Letter of Credit shall be reduced by the amount of any funding provided in a separate Trust Fund for the benefit of the Member in accordance with Section 14.1.
- c) Where a Letter of Credit is issued or renewed in accordance with this Section 14.2, the Company shall arrange with the issuer thereof to issue or renew, as the case may be, the Letter of Credit in the name of the Trustee, to be held by the Trustee as part of the Trust Fund.
- d) To secure the issuance or renewal of a Letter of Credit, the Company shall contribute to the Trust Fund the amount that, after withholding and payment of the Refundable Tax therefrom, is required by the issuer of the Letter of Credit for the issuance or renewal of the Letter of Credit, as the case may be.
- e) On or before the Renewal Date of a particular Letter of Credit held by the Trustee, the Company shall either:
 - i) cause the issuer of the particular Letter of Credit to renew it on the same terms and conditions as applied before the renewal;
 - ii) substitute for the particular Letter of Credit another Letter of Credit on the same terms and conditions as the particular Letter of Credit; or
 - iii) contribute to the Trust Fund the face amount of the Letter of Credit or such other amount required in accordance with the last actuarial valuation report.
- f) Where the Company does not comply with paragraph (e) of this Section 14.2 or where there occurs a Default, the Trustee shall forthwith demand payment under the Letter of Credit.

g) In this Section 14.2,

“Letter of Credit” means, subject to paragraph b) of this Section 14.2, an irrevocable, standby, unsecured letter of credit obtained from a Schedule 1 Canadian Bank or other lender with a term of one year which names the Trustee as beneficiary permitted to draw down (an amount up to the face amount) on the Letter of Credit on the occurrence of a Default or a failure by the Company to comply with paragraph (e) of this Section 14.2, and which shall require the issuing bank or lender to withhold and remit to the Receiver General the appropriate amount of Refundable Tax (provided that, notwithstanding the foregoing, the first Letter of Credit issued in connection with this DB SERP may have a term of less than one year);

“Renewal Date”, in relation to a Letter of Credit, means the date that is thirty (30) days before the Letter of Credit is to expire.

14.3 Company’s responsibility

For more certainty, in the event that, for whatever reason, the assets of the Trust Fund are insufficient to pay for the benefits payable under the DB SERP as and when they become due, notwithstanding any other provision of this Section 14, the Company shall remain responsible for the payment of such benefits.

15. Non-Alienation of Benefits

No benefit payable under the provisions of the DB SERP shall be in any manner capable of anticipation, surrender, commutation, alienation, sale, transfer, assignment, pledge, encumbrance or charge; nor shall any such benefit be in any manner subject to the debts, contracts, liabilities, engagements or torts of the person entitled to such benefit, except as specifically provided in any applicable legislation.

16. Conflicts or Inconsistencies

In the event of any conflict or inconsistency between the provisions of the DB SERP and the provisions of the Base Plans, the provisions of the DB SERP shall prevail.

17. Amendments

The Company reserves the right to amend or terminate the DB SERP at any time. Subject to Section 18.6, no amendment or termination shall adversely affect any benefits that have accrued up to the effective date of such change, based on Earnings, Credited Service, Base Plans and DC SERP accrued benefits up to that date, which effective date shall not precede the date on which the change is communicated to the Member. Notwithstanding the foregoing, any amendment to this DB SERP which is the result of a change to the Base Plans shall take effect as of the same date as applicable in respect of the amendment to the Base Plans.

18. General Provisions

18.1 Currency

Notwithstanding anything to the contrary herein, all payments under the DB SERP shall be in Canadian currency for Members employed in Canada, and in U.S. currency for Members employed in the United States, in each case as of the last date of employment with the Company.

18.2 Withholding and reporting

All payments under the DB SERP are expressed on a pre-tax basis and shall be subject to applicable withholding tax and reporting pursuant to applicable legislation.

18.3 Interpretation

The DB SERP shall be interpreted, with respect to a Member, in accordance with the laws of the same jurisdiction as applicable for purposes of the Member's employment agreement with the Company, which is in force at the relevant time, or in the absence of an employment agreement, with the law of the Province of Québec for a Member employed in Canada, and with the law of the State of South Carolina for a Member employed in the United States.

18.4 Entire Agreement

Except to the extent expressly contemplated by the HR Committee at the time of adoption of the DB SERP, the DB SERP supersedes and replaces any and all prior plans, agreements, arrangements or understandings between the Company and the Member regarding any retirement benefits to be provided to the Member in excess of those that may be payable in accordance with the provisions of the Base Plans and of the DC SERP.

18.5 Severability

Should any of the provisions of the DB SERP and/or conditions be illegal or not enforceable, it or they shall be considered severable and the DB SERP and the remaining conditions shall remain in full force and effect and be binding upon the parties as though the said provision or provisions had never been included.

18.6 Enurement

The DB SERP shall enure to the benefit of and be binding upon the respective successors of the parties hereto, and the heirs, administrators and legal representatives of the Member.

18.7 **Section 409A**

Neither the Company nor any of its directors, officers or employees shall have any liability to a Member in the event Section 409A applies to any benefit paid or provided pursuant to the DB SERP in a manner that results in adverse tax consequences for the Member or any of his or her beneficiaries or transferees. The HR Committee may unilaterally amend, modify or terminate any benefit provided under the DB SERP if it determines, in its sole discretion, that such amendment, modification or termination is necessary or advisable to comply with applicable U.S. law as a result of changes in law or regulation or to avoid the imposition of an additional tax, interest or penalty under Section 409A.

18.8 **Claims Procedure**

The HR Committee shall adopt claims procedures, with respect to Members who are U.S. Taxpayers, in accordance with Department of Labor Regulations Section 2560.503-1.

APPENDIX

Members of the Management Committee covered under a grandfathered SERP arrangement as at March 7, 2007

Steven Barker
Roger Brear
James Lenhoff
Gilles Pharand
Raymond Royer

**THE AMENDED AND RESTATED DOMTAR CORPORATION
2007 OMNIBUS INCENTIVE PLAN**

SECTION 1. PURPOSE

The purposes of The Domtar Corporation 2007 Omnibus Incentive Plan (the "Plan") are to promote the interests of Domtar Corporation and its shareholders by (i) attracting and retaining executive personnel and other key employees and directors of outstanding ability; (ii) motivating executive personnel and other key employees and directors by means of performance-related incentives, to achieve longer-range performance goals; and (iii) enabling such individuals to participate in the long-term growth and financial success of Domtar Corporation.

SECTION 2. DEFINITIONS

(a) Certain Definitions. Capitalized terms used herein without definition shall have the respective meanings set forth below:

"Act" means the Securities Exchange Act of 1934, as amended.

"Adjustment Event" has the meaning given in Section 4(d).

"Affiliate" means, (i) for purposes of Incentive Stock Options, any corporation that is a "parent corporation" (as defined in Section 424(e) of the Code) or a "subsidiary corporation" (as defined in Section 424(e) of the Code) of the Company, and (ii) for all other purposes, with respect to any person, any other person that (directly or indirectly) is controlled by, controlling or under common control with such person.

"Award" means any grant or award made pursuant to Sections 5 through 10 inclusive.

"Award Agreement" means an agreement between the Company and a Participant, setting out the terms and conditions relating to an Award granted under the Plan.

"Board of Directors" means the Board of Directors of the Company.

"Canadian Taxpayer" means a Participant liable to pay income taxes in Canada pursuant to the receipt of an Award under the Plan.

"Cause" means (i) the willful failure by the Participant to perform substantially his duties as an Employee of the Company or any Subsidiary (other than due to physical or mental illness), (ii) the Participant's engaging in willful or serious misconduct that has caused or could reasonably be expected to be injurious to the Company or any Subsidiary in any way, including, but not limited to, by way of damage to their respective reputations or standings in their respective industries, (iii) the Participant's breach of fiduciary duty or fraud with respect to the Company or any Affiliate of the Company, (iv) the Participant's having been indicted for or convicted of, or entered a plea of guilty or nolo contendere to, a crime that constitutes a felony or (v) the breach by the Participant of any written covenant or agreement with the Company or any Subsidiary not to disclose or misuse any information pertaining to, or misuse any property of, the Company or any Subsidiary or not to compete or interfere with the company or any Subsidiary; (vi) violation of any written policy, program or code of the Company or any Subsidiary or (vii) the commission by the Participant of an act of fraud or embezzlement against the Company or any of its Subsidiaries; provided that if a Participant is a party to an employment or individual severance agreement with an Employer that defines the term "Cause" then, with respect to any Award made to such Participant, "Cause" shall have the meaning set forth in such employment or severance agreement. In addition, a Participant's service shall be deemed to have terminated for Cause if, after a Participant's

service has terminated (for a reason other than Cause), facts and circumstances are discovered that would have justified a termination for Cause.

“Change in Control” shall be deemed to have occurred if:

(i) any person (within the meaning of Section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including any group (within the meaning of Rule 13d-5(b) under the Exchange Act), but excluding any of the Company, any Subsidiary or any employee benefit plan sponsored or maintained by the Company or any Subsidiary, acquires “beneficial ownership” (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined Voting Power (as defined below) of the Company’s securities;

(ii) within any 12-month period, the persons who were directors of the Company at the beginning of such period (the “Incumbent Directors”) shall cease to constitute at least a majority of the Board or the board of directors of any successor to the Company; provided, however, that any director elected to the Board, or nominated for election, by a majority of the Incumbent Directors then still in office shall be deemed to be an Incumbent Director for purposes of this subclause (ii); or

(iii) upon the consummation of a merger, consolidation, share exchange, division, sale or other disposition of all or substantially all of the assets of the Company which has been approved by the shareholders of the Company (a “Corporate Event”), and immediately following the consummation of which the stockholders of the Company immediately prior to such Corporate Event do not hold, directly or indirectly, a majority of the Voting Power of (x) in the case of a merger or consolidation, the surviving or resulting corporation, (y) in the case of a share exchange, the acquiring corporation or (z) in the case of a division or a sale or other disposition of assets, each surviving, resulting or acquiring corporation which, immediately following the relevant Corporate Event, holds more than one-half of the gross fair market value of the consolidated assets of the Company immediately prior to such Corporate Event; provided, that if a Participant is a party to an employment or individual severance agreement with an Employer that defines the term “Change in Control” then, with respect to any Award made to such Participant, “Change in Control” shall have the meaning set forth in such employment or severance agreement.

“Change in Control Price” means the highest price per share of Stock offered in conjunction with any transaction resulting in a Change in Control (as determined in good faith by the Committee if any part of the offered price is payable other than in cash) or, in the case of a Change in Control occurring solely by reason of a change in the composition of the Board, the highest Fair Market Value of the Stock on any of the 30 trading days immediately preceding the date on which a Change in Control occurs.

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Committee” means the Human Resources Committee of the Board or such other committee of the Board as the Board shall designate from time to time, consisting of two or more members, each of whom is an “independent” director under New York Stock Exchange Listing requirements, a “Non-Employee Director” within the meaning of Rule 16b-3, as promulgated under the Act, and an “outside director” within the meaning of section 162(m) of the Code and the Treasury Regulations promulgated thereunder.

“Company” means Domtar Corporation, a Delaware corporation, and any successor thereto.

“Covered Employee” means any “covered employee” as defined in Section 162(m)(3) of the Code.

“Deferred Share Unit” means a unit credited to a participant’s account in the books of the Company under Section 9 that represents the right to receive cash or Stock equal to the Fair Market Value of one share of Stock on settlement of the account.

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“Disability” means, unless another definition is incorporated into the applicable Award Agreement, Disability as specified under the Company’s long-term disability insurance policy and any other termination of a Participant’s employment or service under such circumstances that the Committee determines to qualify as a Disability for purposes of this Plan; provided, that if a Participant is a party to an employment or individual severance agreement with an Employer that defines the term “Disability” then, with respect to any Award made to such Participant, “Disability” shall have the meaning set forth in such agreement; provided, further, that in the case of any award subject to Section 409A of the Code, Disability shall have the meaning set forth in Section 409A of the Code.

“Dividend Equivalent” means the right, granted under Section 11 of the Plan, to receive payments in cash or in shares of Stock, based on dividends with respect to shares of Stock.

“Elective Deferred Share Unit” shall have the meaning set forth in Section 9(a).

“Eligible Director” means a member of the Board who is not an Employee.

“Effective Date” means the date, following adoption of this Plan by the Board of Directors, on which this Plan is approved by a majority of the votes cast at a duly constituted meeting of the shareholders of the Company.

“Employee” means any officer or employee of the Company or any Subsidiary (as determined by the Committee in its sole discretion).

“Employer” means the Company and any Subsidiary, and, in the discretion of the Committee, may also mean any business organization that is an Affiliate (i.e., an Affiliate corporation at least 20% of whose outstanding voting securities are owned by the Company and its Subsidiaries).

“Executive Officer” means any “officer” within the meaning of Rule 16(a)-1(f) promulgated under the Act or any Covered Employee.

“Fair Market Value” means, on any date, the closing price of the Stock as reported on the consolidated tape of the New York Stock Exchange (or on such other recognized quotation system on which the trading prices of the Stock are quoted at the relevant time) on such date. In the event that there are no Stock transactions reported on such tape (or such other system) on such date, Fair Market Value shall mean the closing price on the immediately preceding date on which Stock transactions were so reported.

“Freestanding SAR” means a stock appreciation right granted independently of any Options.

“Incentive Stock Option” means a stock option granted under Section 7 of the Plan that is designated as an Incentive Stock Option that is intended to meet the requirements of Section 422 of the Code.

“New Employer” means, after a Change in Control, a Participant’s employer, or any direct or indirect parent or any direct or indirect majority-owned subsidiary of such employer.

“Non-statutory Stock Option” means a stock option granted under Section 7 of the Plan that is not intended to be an Incentive Stock Option.

“Non-U.S. Award” has the meaning given in Section 3(f).

“Option” means an Incentive Stock Option or a Non-statutory Stock Option.

“Participant” means an Employee or Eligible Director who is selected by the Committee to receive an Award under the Plan.

“Performance Award” means Performance Shares, Performance Units and all other Awards that vest (in whole or in part) upon the achievement of specified Performance Goals.

“Performance Cycle” means the period of time selected by the Committee during which performance is measured for the purpose of determining the extent to which a Performance Award has been earned or vested.

“Performance Goals” means the objectives established by the Committee for a Performance Cycle pursuant to Section 5(c) for the purpose of determining the extent to which a Performance Award has been earned or vested.

“Performance Share” means an Award granted pursuant to Section 5 of the Plan of a contractual right to receive a share of Stock (or the cash equivalent thereof) upon the achievement, in whole or in part, of the applicable Performance Goals.

“Performance Unit” means a dollar denominated unit (or a unit denominated in the Participant’s local currency) granted pursuant to Section 5 of the Plan, payable upon the achievement, in whole or in part, of the applicable Performance Goals.

“Restriction Period” means the period of time selected by the Committee during which a grant of Restricted Stock, Restricted Stock Units and Deferred Share Units, as the case may be, is subject to forfeiture and/or restrictions on transfer pursuant to the terms of the Plan.

“Restricted Stock” means shares of Stock contingently granted to a Participant under Section 6 of the Plan.

“Restricted Stock Unit” means a stock denominated unit contingently awarded under Section 6 of the Plan.

“Retirement” means, unless another definition is incorporated into the applicable Award Agreement, a termination of the Participant’s employment or service at or after the Participant reaches age 65 or the Participant reaches age 55 with at least 10 years of service; provided that if a Participant is a party to an employment or individual severance agreement with an Employer that defines the term “Retirement” then, with respect to any Award made to such Participant, “Retirement” shall have the meaning set forth in such employment or severance agreement.

“Section 409A of the Code” Section 409A of the Code and the applicable rules, regulations and guidance promulgated thereunder.

“Service” means, with respect to Employees, continued employment with the Company and its Subsidiaries or, with respect to Eligible Directors, service on the Board of Directors.

“Service Award” means an Award that vests solely based on the passage of time or continued Service over a fixed period of time.

“Specified Award” means an Award of non-qualified deferred compensation within the meaning of and that is subject to Section 409A of the Code.

“Specified Change in Control” means (i) a Corporate Event in which the stockholders of the Company immediately prior to such Corporate Event do not hold, directly or indirectly, at least 25% of the Voting Power of (x) in the case of a merger or consolidation, the surviving or resulting corporation, (y) in the case of a share exchange, the acquiring corporation or (z) in the case of a division or a sale or other disposition of assets, the surviving, resulting or acquiring corporations which, immediately following the relevant Corporate Event, hold more than one-half of the gross fair market value of the consolidated assets of the Company

immediately prior to such Corporate Event; or (ii) the direct or indirect acquisition by any person (within the meaning of Section 3(a)(9) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), including any group (within the meaning of Rule 13d-5(b) under the Exchange Act), but excluding any of the Company, any Subsidiary or any employee benefit plan sponsored or maintained by the Company or any Subsidiary, of "beneficial ownership" (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company representing 75% or more of the combined Voting Power of the Company's securities; in each case which is (x) a Change in Control and (y) a "change in control" within the meaning of Section 409A of the Code.

"Specified Employee" means (i) if the Company has not adopted a specified employee policy, any Participant qualifying, on the date of such Participant's Termination of Service, as a "specified employee" as defined in Section 409A of the Code and (ii) if the Company has in place a specified employee policy, any Participant qualifying as a "specified employee" under such policy as in effect on the date of such Participant's Termination of Service.

"Stock" means the common stock of the Company, par value \$0.01 per share.

"Stock Appreciation Right" or "SAR" means the right to receive a payment from the Company in cash and/or shares of Stock equal to the product of (i) the excess, if any, of the Fair Market Value of one share of Stock on the exercise date over a specified price fixed by the Committee on the grant date, multiplied by (ii) a stated number of shares of Stock.

"Subplan" has the meaning given in Section 3(f).

"Subsidiary" means any business entity in which the Company owns, directly or indirectly, fifty percent (50%) or more of the total combined voting power of all classes of stock entitled to vote, and any other business organization, regardless of form, in which the Company possesses, directly or indirectly, 50% or more of the total combined equity interests in such organization.

"Termination for Business Reasons" means (i) termination of a Participant's employment or service by the Participant's Employer or New Employer due to the fact that (x) the Employer or New Employer has ceased or intends to cease (A) to carry on the business or function for the purpose of which the Participant was employed or otherwise provided services, or (B) to carry on that business or function in the place the Participant was employed or otherwise provided services or (y) the requirements of that business (A) for employees to carry out work of a particular kind, or (B) to carry out the work in the place where the Participant was employed or otherwise provided services, have ceased or diminished or are expected to cease or diminish, and, in each case, which is beyond the Participant's control (other than a termination for Cause or by reason of death, Retirement or Disability); (ii) termination of employment or service by the Participant as a result of (x) the Employer or New Employer requiring the Participant to work in an office which is more than 75 miles from the location of the Employer's current principal executive office or the location where the Participant is employed or otherwise provides services immediately prior to such termination (subject to such reasonable travel as the performance of Participant's duties and the business of the Employer may require), or (y) a material diminution in Participant's compensation or duties; or (iii) in the case of a Participant who is a non-employee director, a termination of such Participant's service as a director of the Company or any successor entity thereto by the Company or any successor entity thereto (other than a termination by reason of death, Retirement or Disability) in connection with a Change in Control.

"Termination of Service" means with respect to an Eligible Director, the date upon which such Eligible Director ceases to be a member of the Board and, with respect to an Employee, the date the Participant ceases to be an Employee, including, with respect to the provisions of

Section 9 applicable to a Canadian Taxpayer, due to a Termination for Business Reasons; provided, that, with respect to any Specified Award, Termination of Service shall mean "separation from service", as defined in Section 409A of the Code and the rules, regulations and guidance promulgated thereunder.

"Voting Power" when used in the definition of Change in Control shall mean such specified number of the Voting Securities as shall enable the holders thereof to cast such percentage of all the votes which could be cast in an annual election of directors and "Voting Securities" shall mean all securities of a company entitling the holders thereof to vote in an annual election of directors.

(b) Gender and Number. Except when otherwise indicated by the context, words in the masculine gender used in the Plan shall include the feminine gender, the singular shall include the plural, and the plural shall include the singular.

(a) Eligibility. Each Employee (including any officer of the Company) and Eligible Director who, in the opinion of the Committee, has the capacity to contribute to the successful performance of the Company, is eligible to be a Participant in the Plan.

(b) Power to Grant and Establish Terms of Awards. The Committee shall have the discretionary authority, subject to the terms of the Plan, to determine the Employees and Eligible Directors, if any, to whom Awards shall be granted, the type or types of Awards to be granted, and the terms and conditions of any and all Awards including, without limitation, the number of shares of Stock subject to an Award, the time or times at which Awards shall be granted, and the terms and conditions of applicable Award Agreements. The Committee may establish different terms and conditions for different types of Awards, for different Participants receiving the same type of Award, and for the same Participant for each type of Award such Participant may receive, whether or not granted at the same or different times.

(c) Administration. The Plan shall be administered by the Committee. The Committee shall have sole and complete authority and discretion to adopt, alter and repeal such administrative rules, guidelines and practices governing the operation of the Plan as it shall from time to time deem advisable, and to interpret the terms and provisions of the Plan. The Committee's decisions (including any failure to make decisions) shall be binding upon all persons, including the Company, shareholders, Employers and each Employee, Director, or Participant (or, in the event of such Participant's death, such Participant's estate), and shall be given deference in any proceeding with respect thereto.

(d) Delegation by the Committee. The Committee may delegate to the Chief Executive Officer of the Company the power and authority to make Awards to Participants who are not "insiders" subject to Section 16(b) of the Act, pursuant to such conditions and limitations as the Committee may establish. The Committee may also appoint agents (who may be officers or employees of the Company) to assist in the administration of the Plan and may grant authority to such persons to execute agreements, including Award Agreements, or other documents on its behalf. All expenses incurred in the administration of the Plan, including, without limitation, for the engagement of any counsel, consultant or agent, shall be paid by the Company.

(e) Restrictive Covenants and Other Conditions. Without limiting the generality of the foregoing, the Committee may condition the grant of any Award under the Plan upon the Participant to whom such Award would be granted agreeing in writing to certain conditions (such as restrictions on the ability to transfer the underlying shares of Stock) or covenants in favor of the Company and/or one or more Affiliates thereof (including, without limitation, covenants not to compete, not to solicit employees and customers and not to disclose confidential information, that may have effect

following the Termination of Service and after the Stock subject to the Award has been transferred to the Participant), including, without limitation, the requirement that the Participant disgorge any profit, gain or other benefit received in respect of the Award prior to any breach of any such covenant.

(f) Participants Based Outside the United States. To conform with the provisions of local laws and regulations, or with local compensation practices and policies, in foreign countries in which the Company or any of its Subsidiaries or Affiliates operate, but subject to the limitations set forth herein regarding the maximum number of shares issuable hereunder and the maximum award to any single Participant, the Committee may (i) modify the terms and conditions of Awards granted to Participants employed outside the United States ("Non-US Awards"), (ii) establish subplans with modified exercise procedures and such other modifications as may be necessary or advisable under the circumstances ("Subplans"), and (iii) take any action which it deems advisable to obtain, comply with or otherwise reflect any necessary governmental regulatory procedures, exemptions or approvals with respect to the Plan. The Committee's decision to grant Non-US Awards or to establish Subplans is entirely voluntary, and at the complete discretion of the Committee. The Committee may amend, modify or terminate any Subplans at any time, and such amendment, modification or termination may be made without prior notice to the Participants. The Company, Subsidiaries, Affiliates and members of the Committee shall not incur any liability of any kind to any Participant as a result of any change, amendment or termination of any Subplan at any time. The benefits and rights provided under any Subplan or by any Non-US Award (i) are wholly discretionary and, although provided by either the Company, a Subsidiary or Affiliate, do not constitute regular or periodic payments and (ii) are not to be considered part of the Participant's salary or compensation under the Participant's employment with the Participant's local employer for purposes of calculating any severance, resignation, redundancy or other end of service payments, vacation, bonuses, long-term service awards, indemnification, pension or retirement benefits, or any other payments, benefits or rights of any kind. If a Subplan is terminated, the Committee may direct the payment of Non-US Awards (or direct the deferral of payments whose amount shall be determined) prior to the dates on which payments would otherwise have been made, and, in the Committee's discretion, such payments may be made in a lump sum or in installments.

(a) Number. Subject in all cases to the provisions of this Section 4, the maximum number of shares of Stock that are available for Awards shall be 4,000,000 shares of Stock. Notwithstanding the provisions of Section 4(b), the maximum number of shares of Stock that may be issued in respect of Incentive Stock Options shall not exceed 4,000,000 shares. Shares of Stock may be made available from Stock held in treasury or authorized but unissued shares of the Company not reserved for any other purpose.

(b) Canceled, Terminated, or Forfeited Awards, etc. Any shares of Stock subject to an Award which for any reason expires without having been exercised, is canceled or terminated or otherwise is settled without the issuance of any Stock shall again be available for grant under the Plan. If a Stock Appreciation Right is granted in tandem with an Option so that only one may be exercised with the other being surrendered in such exercise in accordance with Section 8(b), the number of shares subject to the tandem Option and Stock Appreciation Right shall only be taken into account once (and not as to both awards). Shares of Stock subject to Awards that are assumed, converted or substituted pursuant to an Adjustment Event will not further reduce the maximum limitation set forth in Section 4(a).

(c) Individual Award Limitations. Subject to Sections 4(b) and 4(d), the following individual Award limits shall apply:

(i) No Participant may receive the right to more than 400,000 Performance Shares, shares of performance-based Restricted Stock and Restricted Stock Units and performance-based Deferred Share Units under the Plan in any one year.

(ii) No Participant may receive the right to Performance Units under the Plan in any one year with a value of more than \$10 million (or the equivalent of such amount denominated in the Participant's local currency).

(iii) No Participant may receive Options, SARs or any other Award based solely on the increase in value of Stock on more than 800,000 shares of Stock under the Plan in any one year.

(iv) The aggregate Fair Market Value of the shares with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year shall not exceed \$100,000.

(v) No Eligible Director may receive Deferred Share Units, other than Elective Deferred Share Units, under the Plan in any one year with a value of more than \$500,000 (based upon the Fair Market Value of the underlying shares of Stock on the date of award).

(d) Adjustment in Capitalization. The number and kind of shares of Stock available for issuance under the Plan and the number, class, exercise price, Performance Goals or other terms of any outstanding Award shall be adjusted by the Board to reflect any extraordinary dividend, stock dividend, stock split or share combination or any recapitalization, business combination, merger, consolidation, spin-off, exchange of shares, liquidation or dissolution of the Company or other similar transaction affecting the Stock (any such transaction or event, an "Adjustment Event") in such manner as it determines in its sole discretion.

(e) Prohibition Against Repricing. Except to the extent (i) approved in advance by holders of a majority of the shares of the Company entitled to vote generally in the election of directors or (ii) as a result of any Adjustment Event, the Committee shall not have the power or authority to reduce, whether through amendment or otherwise, the exercise price of any outstanding Option or base price of any outstanding Stock Appreciation Right or to grant any new Award, or make any cash payment, in substitution for or upon the cancellation of Options or Stock Appreciation Rights previously granted.

SECTION 5. PERFORMANCE SHARES AND PERFORMANCE UNITS

(a) Generally. The Committee shall have the authority to determine the Participants who shall receive Performance Shares and Performance Units, the number of Performance Shares and the number and value of Performance Units each Participant receives for each or any Performance Cycle, and the Performance Goals applicable in respect of such Performance Shares and Performance Units for each Performance Cycle. Any adjustments to such Performance Goals shall be approved by the Committee. The Committee shall determine the duration of each Performance Cycle (the duration of Performance Cycles may differ from each other), and there may be more than one Performance Cycle in existence at any one time. Unless otherwise determined by the Committee, the Performance Cycle for Performance Shares and Performance Units shall be three years. Performance Shares and Performance Units shall be evidenced by an Award Agreement that shall specify the number of Performance Shares and the number and value of Performance Units awarded to the Participant, the Performance Goals applicable thereto, and such other terms and conditions not inconsistent with the Plan as the Committee shall determine. No shares of Stock will be issued at the time an Award of Performance Shares is made, and the Company shall not be required to set aside a fund for the payment of Performance Shares or Performance Units. No dividends shall be paid on unearned Performance Shares.

(b) Earned Performance Shares and Performance Units. Performance Shares and Performance Units shall become earned, in whole or in part, based upon the attainment of specified Performance Goals or the occurrence of any event or events, including a Change in Control, as the Committee shall determine, either at or after the grant date. In addition to the achievement of the specified Performance Goals, the Committee may, at the grant date, condition payment of Performance Shares and Performance Units on such conditions as the Committee shall specify. The Committee may also require the completion of a minimum period of service (in addition to the achievement of any applicable Performance Goals) as a condition to the vesting of any Performance Share or Performance Unit Award.

(c) Performance Goals. At the discretion of the Committee, Performance Goals may be based on the total return to the Company's shareholders, inclusive of dividends paid, during the applicable Performance Cycle (determined either in absolute terms or relative to the performance of one or more similarly situated companies or a published index covering the performance of a number of companies), or upon the relative or comparative attainment of one or more of the following criteria, whether in absolute terms or relative to the performance of one or more similarly situated companies or a published index covering the performance of a number of companies: operating earnings, net earnings, income, earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization, return on the Company's assets, increase in the Company's earnings or earnings per share, revenue growth, share price performance, return on invested capital, operating income, pre- or post-tax, income, net income, economic value added, cash flow, improvement in or attainment of expense levels, improvement in or attainment of working capital levels, return on equity, debt reduction, gross profit, market share, cost reductions, workplace safety goals, workforce satisfaction and diversity goals, employee retention, completion of key projects, strategic plan development and implementation and achievement of synergy targets, and, in the case of persons who are not Executive Officers, such other criteria as may be determined by the Committee. Performance Goals may be established on a Company-wide basis or with respect to one or more business units, divisions, Subsidiaries, or products. When establishing Performance Goals for a Performance Cycle, the Committee may exclude any or all "unusual or infrequently occurring items" as determined under U.S. generally accepted accounting principles and as identified in the financial statements, notes to the financial statements or management's discussion and analysis in the annual report, including, without limitation, the charges or costs associated with closures and restructurings of the Company or any Employer, discontinued operations, unusual or infrequently occurring items, capital gains and losses, dividends, share repurchase, other unusual, infrequently occurring or non-recurring items, and the cumulative effects of accounting changes. Except in the case of Awards to Executive Officers intended to be "other performance-based compensation" under Section 162(m)(4) of the Code, the Committee may also adjust the Performance Goals for any Performance Cycle as it deems equitable in recognition of unusual, infrequently occurring or non-recurring events affecting the Company, changes in applicable tax laws or accounting principles, or such other factors as the Committee may determine (including, without limitation, any adjustments that would result in the Company paying non-deductible compensation to a Participant).

(d) Special Rule for Performance Goals. If, at the time of grant, the Committee intends a Performance Share Award, Performance Unit or other Performance Award to qualify as "other performance based compensation" within the meaning of Section 162(m)(4) of the Code, the Committee must establish Performance Goals for the applicable Performance Cycle no later than the 90th day after the Performance Cycle begins (or by such other date as may be required under Section 162(m) of the Code) but not later than the date on which 25% of the performance period has lapsed.

(e) Negative Discretion. Notwithstanding anything in this Section 5 to the contrary, the Committee shall have the right, in its absolute discretion, (i) to reduce or eliminate the amount otherwise payable to any Participant under Section 5(h) based on individual performance or any other factors that the Committee, in its discretion, shall deem appropriate and (ii) to establish rules or procedures that have the effect of limiting the amount payable to each Participant to an amount that is less than the maximum amount otherwise authorized.

(f) Affirmative Discretion. Notwithstanding any other provision in the Plan to the contrary, (including, without limitation, the maximum amounts payable under Section 4(c)), but subject to the maximum number of shares available for issuance under Section 4(a) of the Plan, the Committee shall have the right, in its discretion, to grant a bonus or Award in cash, in shares of Stock or in any combination thereof, to any Participant who is not a Covered Employee for the year in which the amount paid would ordinarily be deductible by the Company for federal income tax purposes in an amount up to the maximum bonus payable, based on individual performance or any other criteria that the Committee deems appropriate.

(g) Certification of Attainment of Performance Goals. As soon as practicable after the end of a Performance Cycle and prior to any payment or vesting in respect of such Performance Cycle, the Committee shall certify in writing the number of Performance Shares or other Performance Awards and the number and value of Performance Units which have been earned or vested on the basis of performance in relation to the established Performance Goals.

(h) Payment of Awards. Payment or delivery of Stock with respect to earned Performance Shares and earned Performance Units shall be distributed to the Participant or, if the Participant has died, to the Participant's estate, as soon as practicable after the expiration of the Performance Cycle and the Committee's certification under paragraph 5(g) above, provided that payment or delivery of Stock with respect to earned Performance Shares and earned Performance Units shall not be distributed to a Participant until any other conditions on payment of such Awards established by the Committee have been satisfied. The Committee shall determine whether earned Performance Shares and the value of earned Performance Units are to be distributed in the form of cash, shares of Stock or in a combination thereof, with the value or number of shares payable to be determined based on the Fair Market Value of the Stock on the date of the Committee's certification under paragraph 5(g) above. The Committee shall have the right to impose whatever conditions it deems appropriate with respect to the award or delivery of shares of Stock, including conditioning the vesting of such shares on the performance of additional service.

(i) Newly Eligible Participants. Notwithstanding anything in this Section 5 to the contrary, the Committee shall be entitled to make such rules, determinations and adjustments as it deems appropriate with respect to any Participant who becomes eligible to receive Performance Shares, Performance Units or other Performance Awards after the commencement of a Performance Cycle.

SECTION 6. RESTRICTED STOCK AND RESTRICTED STOCK UNITS

(a) Grant. Restricted Stock and Restricted Stock Units may be granted to Participants at such time or times as shall be determined by the Committee. The grant date of any Restricted Stock or Restricted Stock Units under the Plan will be the date on which such Restricted Stock or Restricted Stock Units are awarded by the Committee, or on such other date as the Committee shall determine. Restricted Stock and Restricted Stock Units shall be evidenced by an Award Agreement that shall specify (i) the number of shares of Restricted Stock and the number of Restricted Stock Units to be granted to each Participant, (ii) the Restriction Period(s) and (iii) such other terms and conditions, including rights to dividends or Dividend Equivalents, not inconsistent

with the Plan as the Committee shall determine, including customary representations, warranties and covenants with respect to securities law matters. Grants of Restricted Stock shall be evidenced by a bookkeeping entry in the Company's records (or by such other reasonable method as the Company shall determine from time to time). No shares of Stock will be issued at the time an Award of Restricted Stock Units is made and the Company shall not be required to set aside a fund for the payment of any such Awards.

(b) Vesting. Restricted Stock and Restricted Stock Units granted to Participants under the Plan shall be subject to a Restriction Period. Except as otherwise determined by the Committee at or after grant, and subject to the Participant's continued employment or service with his or her Employer on such date, the Restriction Period with respect to Restricted Stock and Restricted Stock Units that vest solely based on the passage of time shall lapse in four approximately equal installments on the first through fourth anniversaries of the grant date and the Restriction Period with respect to performance-based Restricted Stock and Restricted Stock Units shall lapse, to the extent performance goals have been achieved, three years after the grant date, in each case in accordance with the schedule provided in Participant's restricted stock agreement. The Restriction Period may lapse with respect to portions of Restricted Stock and Restricted Stock Units on a pro rata basis, or it may lapse at one time with respect to all Restricted Stock and Restricted Stock Units in an Award. The Restriction Period shall also lapse, in whole or in part, upon the occurrence of any event or events, including a Change in Control, specified in the Plan, or specified by the Committee, in its discretion, either at or after the grant date of the applicable Award. In its discretion, the Committee may also establish performance-based vesting conditions with respect to Awards of Restricted Stock and Restricted Stock Units (in lieu of, or in addition to, time-based vesting) based on one or more of the Performance Goals listed in Section 5(c); provided that any Award of Restricted Stock or Restricted Stock Units made to any Executive Officer that is intended to qualify as "other performance based compensation" under Section 162(m) of the Code shall be subject to the same restrictions and limitations applicable to Awards of Performance Shares and Performance Units under Sections 5(d) and 5(g), during a Performance Cycle selected by the Committee. In no case shall the vesting periods applicable to a Participant who is a Canadian Taxpayer exceed the restricted period under the Income Tax Act (Canada).

(c) Settlement of Restricted Stock and Restricted Stock Units. At the expiration of the Restriction Period for any Restricted Stock Awards, the Company shall remove the restrictions applicable to the bookkeeping entry evidencing the Restricted Stock Awards, and shall, upon request, deliver the stock certificates evidencing such Restricted Stock Awards to the Participant or the Participant's legal representative (or otherwise evidence the issuance of such shares free of any restrictions imposed under the Plan). At the expiration of the Restriction Period for any Restricted Stock Units, for each such Restricted Stock Unit, the Participant shall receive, in the Committee's discretion, (i) a cash payment equal to the Fair Market Value of one share of Stock as of such payment date, (ii) one share of Stock or (iii) any combination of cash and shares of Stock.

SECTION 7. STOCK OPTIONS

(a) Grant. Options may be granted to Participants at such time or times as shall be determined by the Committee. Except as otherwise provided herein, the Committee shall have complete discretion in determining the number of Options, if any, to be granted to a Participant. The grant date of an Option under the Plan will be the date on which the Option is awarded by the Committee, or such other date as the Committee shall determine in its sole discretion. Each Option shall be evidenced by an Award Agreement that shall specify the exercise price, the duration of the Option, the number of shares of Stock to which the Option pertains, the conditions upon which the Option or any portion thereof shall become vested or exercisable and such other

terms and conditions not inconsistent with the Plan as the Committee shall determine, including customary representations, warranties and covenants with respect to securities law matters.

(b) Exercise Price. The Committee shall establish the exercise price at the time each Option is granted, which price shall not be less than 100% of the Fair Market Value of the Stock on the date of grant. Notwithstanding the foregoing, if an Incentive Stock Option is granted to an Employee who, at the time of grant, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Affiliate thereof, the exercise price shall be at least 110% of the Fair Market Value of the Stock on the grant date.

(c) Vesting and Exercisability. Except as otherwise determined by the Committee at or after grant, and subject to the Participant's continued employment or service with his or her Employer on such date, each Option awarded to a Participant under the Plan shall become vested and exercisable in accordance with the vesting schedule provided in the Participant's option agreement, but in no event later than ten years from the date of grant. Options awarded under the Plan may vest either on a cliff-vesting or a pro rata basis. Unless otherwise determined by the Committee and specified in the Award Agreement evidencing the grant of Options, each Option shall become vested and exercisable in four approximately equal installments on the first four anniversaries of the date of grant. Options may also become exercisable, in whole or in part, upon the occurrence of any event or events, including a Change in Control, specified in the Plan, or specified by the Committee, in its discretion, either at or after the grant date of the applicable Option. In its discretion, the Committee may also establish performance conditions (in lieu of, or in addition to, time-based vesting) with respect to the exercisability of any Option. No Option shall be exercisable on or after the tenth anniversary of its grant date. The Committee may impose such conditions with respect to the exercise of Options, including without limitation, any relating to the application of federal or state securities laws, as it may deem necessary or advisable.

(d) Payment. No Stock shall be delivered pursuant to any exercise of an Option until payment in full of the exercise price therefor is received by the Company. Such payment may be made (i) in cash or its equivalent, (ii) by exchanging shares of Stock owned by the optionee which are not the subject of any pledge or other security interest, (iii) by a combination of the foregoing, provided that the combined value of all cash and cash equivalents and the Fair Market Value of any such Stock so tendered to the Company, valued as of the date of such tender, is at least equal to such exercise price, (iv) to the extent permitted by the Committee, through an arrangement with a broker approved by the Company (or through an arrangement directly with the Company) whereby payment of the exercise price is accomplished with the proceeds of the sale of Stock or (v) to the extent permitted by the Committee, through net settlement in Stock. The Company may not make a loan to a Participant to facilitate such Participant's exercise of any of his or her Options or payment of taxes.

(e) Incentive Stock Option Status. Notwithstanding anything in this Plan to the contrary, no term of this Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be so exercised, so as to disqualify the Plan under Section 422 of the Code.

SECTION 8. STOCK APPRECIATION RIGHTS

(a) Grant. Stock Appreciation Rights may be granted to Participants at such time or times as shall be determined by the Committee. Stock Appreciation Rights may be granted in tandem with Options which, unless otherwise determined by the Committee at or after the grant date, shall have substantially similar terms and conditions to such Options to the extent applicable, or may be granted on a freestanding basis, not related to any Option. The grant date of any Stock

Appreciation Right under the Plan will be the date on which the Stock Appreciation Right is awarded by the Committee or such other future date as the Committee shall determine in its sole discretion. No Stock Appreciation Right shall be exercisable on or after the tenth anniversary of its grant date. Stock Appreciation Rights shall be evidenced by an Award Agreement, whether as part of the Award Agreement governing the terms of the Options, if any, to which such Stock Appreciation Right relates or pursuant to a separate Award Agreement with respect to freestanding Stock Appreciation Rights, in each case containing such provisions not inconsistent with the Plan as the Committee shall determine, including customary representations, warranties and covenants with respect to securities law matters.

(b) Vesting and Exercisability. Except as otherwise determined by the Committee at or after grant, and subject to the Participant's continued employment or service with his or her Employer on such date, each Stock Appreciation Right awarded to a Participant under the Plan shall become vested and exercisable in accordance with the vesting schedule provided in the Participant's Award Agreement, but in no event later than ten years from the date of grant. Stock Appreciation Rights awarded under the Plan may vest either on a cliff-vesting or a pro rata basis. Unless otherwise determined by the Committee and specified in the Award Agreement evidencing the grant of Freestanding SARs, each Freestanding SAR shall become vested and exercisable in four approximately equal installments on the first four anniversaries of the date of grant. Stock Appreciation Rights granted in tandem with an Option shall become vested and exercisable on the same date or dates as the Options with which such Stock Appreciation Rights are associated vest and become exercisable. Stock Appreciation Rights may also become exercisable, in whole or in part, upon the occurrence of any event or events, including a Change in Control, as specified in the Plan, or specified by the Committee, in its discretion, either at or after the grant date of the applicable Stock Appreciation Right. In its discretion, the Committee may also establish performance conditions (in lieu of, or in addition to, time-based vesting) with respect to the exercisability of any Stock Appreciation Rights. No Stock Appreciation Rights shall be exercisable on or after the tenth anniversary of their grant date. The Committee may impose such conditions with respect to the exercise of Stock Appreciation Rights, including without limitation, any relating to the application of federal or state securities laws, as it may deem necessary or advisable. Stock Appreciation Rights that are granted in tandem with an Option may only be exercised upon the surrender of the right to exercise such Option for an equivalent number of shares of Stock, and may be exercised only with respect to the shares of Stock for which the related Option is then exercisable.

(c) Settlement. Subject to Section 13(a), upon exercise of a Stock Appreciation Right, the Participant shall be entitled to receive payment in the form, determined by the Committee, of cash or shares of Stock having a Fair Market Value equal to such cash amount, or a combination of shares of Stock and cash having an aggregate value equal to such amount, determined by multiplying:

- (i) any increase in the Fair Market Value of one share of Stock on the exercise date over the price fixed by the Committee on the grant date of such Stock Appreciation Right, which may not be less than the Fair Market Value of a share of Stock on the grant date of such Stock Appreciation Right, by
- (ii) the number of shares of Stock with respect to which the Stock Appreciation Right is exercised;

provided, however, that on the grant date, the Committee may establish, in its sole discretion, a maximum amount per share which will be payable upon exercise of a Stock Appreciation Right.

SECTION 9. DEFERRED SHARE UNITS

(a) Grant. Freestanding Deferred Share Units may be granted to Participants at such time or times as shall be determined by the Committee without regard to any election by the Participant to defer receipt of any compensation or bonus amount payable to him. The grant date of any freestanding Deferred Share Unit under the Plan will be the date on which such freestanding Deferred Share Unit is awarded by the Committee or on such other future date as the Committee shall determine in its sole discretion. In addition, on fixed dates established by the Committee and subject to such terms and conditions as the Committee shall determine, the Committee may permit a Participant to elect to defer receipt of all or a portion of his annual compensation and/or annual incentive bonus ("Deferred Annual Amount") payable by the Company or a Subsidiary and receive in lieu thereof an Award of elective Deferred Share Units ("Elective Deferred Share Units") equal to the greatest whole number which may be obtained by dividing (i) the amount of the Deferred Annual Amount, by (ii) the Fair Market Value of one share of Stock on the date of payment of such compensation and/or annual bonus. Each Award of Deferred Share Units shall be evidenced by an Award Agreement that shall specify (x) the number of shares of Stock to which the Deferred Share Units pertain, (y) the time and form of payment of the Deferred Share Units and (z) such terms and conditions not inconsistent with the Plan as the Committee shall determine, including customary representations, warranties and covenants with respect to securities law matters. Upon the grant of Deferred Share Units pursuant to the Plan, the Company shall establish a notional account for the Participant and will record in such account the number of Deferred Share Units awarded to the Participant. No shares of Stock will be issued to the Participant at the time an award of Deferred Share Units is granted. Deferred Share Units may become payable on a Change in Control, Termination of Service or on a specified date or dates set forth in the Award Agreement evidencing such Deferred Share Units. Notwithstanding anything in this Plan to the contrary, Deferred Share Units granted to a Participant who is a Canadian Taxpayer shall only be redeemable and the value thereof payable to such Participant (or, in the event of such Participant's death, such Participant's estate) upon a Termination of Service of such Participant (including due to death).

(b) Rights as a Stockholder. The Committee shall determine whether and to what extent Dividend Equivalents will be credited to the account of, or paid currently to, a Participant receiving an Award of Deferred Share Units. Unless otherwise provided by the Committee at or after the grant date, (i) any cash dividends or distributions credited to the Participant's account shall be deemed to have been invested in additional Deferred Share Units on the record date established for the related dividend or distribution in an amount equal to the greatest whole number which may be obtained by dividing (A) the value of such dividend or distribution on the record date by (B) the Fair Market Value of one share of Stock on such date, and such additional Deferred Share Unit shall be subject to the same terms and conditions as are applicable in respect of the Deferred Share Unit with respect to which such dividends or distributions were payable, and (ii) if any such dividends or distributions are paid in shares of Stock or other securities, such shares and other securities shall be subject to the same vesting, performance and other restrictions as apply to the Deferred Share Unit with respect to which they were paid. A Participant shall not have any rights as a stockholder in respect of Deferred Share Units awarded pursuant to the Plan (including, without limitation, the right to vote on any matter submitted to the Company's stockholders) until such time as the shares of Stock attributable to such Deferred Share Units have been issued to such Participant or his estate. A Participant who is a Canadian Taxpayer shall not be considered the owner of the Common Stock underlying Deferred Share Units granted to such Participant.

(c) Vesting. Unless the Committee provides otherwise at or after the grant date, the portion of each Award of Deferred Share Units that consists of freestanding Deferred Share Units, together with any Dividend Equivalents credited with respect thereto, will be subject to a Restriction Period. Except as otherwise determined by the Committee at the time of grant, and subject to the

Participant's continued Service with his or her Employer on such date, the Restriction Period with respect to Deferred Share Units that vest solely based on the passage of time shall lapse in four approximately equal installments on the first through fourth anniversaries of the grant date and the Restriction Period with respect to performance-based Deferred Share Units shall lapse, to the extent Performance Goals have been achieved, three years after the grant date, in each case in accordance with the schedule provided in Participant's Award Agreement. The Restriction Period may lapse with respect to portions of Deferred Share Units on a pro rata basis, or it may lapse at one time with respect to all Deferred Share Units in an Award. The Restriction Period shall also lapse, in whole or in part, upon the occurrence of any event or events, including a Change in Control, specified in the Plan, or specified by the Committee, in its discretion, on the grant date of the applicable Award. In its discretion, the Committee may also establish performance-based vesting conditions with respect to Awards of Deferred Share Units (in lieu of, or in addition to, time-based vesting) based on one or more of the Performance Goals listed in Section 5(c); provided that any Award of Deferred Share Units made to any Executive Officer that is intended to qualify as "other performance based compensation" under Section 162(m) of the Code shall be subject to the same restrictions and limitations applicable to Awards of Performance Shares and Performance Units under Sections 5(d) and 5(g), during a Performance Cycle selected by the Committee. The portion of each Award of Deferred Share Units that consists of Elective Deferred Share Units, together with any Dividend Equivalents credited with respect thereto, shall not be subject to any Restriction Period and shall be non-forfeitable at all times. Notwithstanding anything in this Plan to the contrary, Deferred Share Units granted to a Participant who is a Canadian Taxpayer shall only be redeemable and the value thereof payable to such Participant (or in the event of death, such Participant's estate) upon a Termination of Service of such Participant (including due to death).

(d) Further Deferral Elections. A Participant may elect to further defer receipt of shares of Stock issuable in respect of Deferred Share Units (or an installment of an Award) for a specified period or until a specified event, subject in each case to the Committee's approval and to such terms as are determined by the Committee, all in its sole discretion. Subject to any exceptions adopted by the Committee, such election must generally be made at least 12 months prior to the prior settlement date of such Deferred Share Units (or any such installment thereof) whether pursuant to this Section 9 or Section 13 and must defer settlement for at least five years. A further deferral opportunity does not have to be made available to all Participants, and different terms and conditions may apply with respect to the further deferral opportunities made available to different Participants. This Section 9(d) shall not apply to Deferred Share Units granted to a Participant who is a Canadian Taxpayer.

(e) Settlement. Subject to this Section 9 and Section 13, upon the date specified in the Award Agreement evidencing the Deferred Share Units (or, in the case of a Participant who is a Canadian Taxpayer, in accordance with the procedures set out in the Award Agreement evidencing the Deferred Share Units) for each such Deferred Share Unit the Participant shall receive, in the Committee's discretion, (i) a cash payment equal to the Fair Market Value of one share of Stock as of such payment date, (ii) one share of Stock or (iii) any combination of cash and shares of Stock. In no event shall any payment or settlement of Deferred Share Units granted to a Participant who is a Canadian Taxpayer take place later than December 31 of the first calendar year commencing after the year in which the Termination of Service of such Participant takes place.

(a) Generally. The Committee may grant other stock-based Awards, including, but not limited to, the outright grant of Stock in satisfaction of obligations of the Company or any Affiliate thereof under another compensatory plan, program or arrangement, modified Awards intended to comply with or structured in accordance with the provisions of applicable non-U.S. law or practice, or the

sale of Stock, in such amounts and subject to such terms and conditions as the Committee shall determine, including, but not limited to, the satisfaction of Performance Goals. Each other-stock based Award shall be evidenced by an Award Agreement that shall specify the terms and conditions applicable thereto. Any other stock-based Award may entail the transfer of actual shares of Stock or the payment of the value of such Award in cash based upon the value of a specified number of shares of Stock, or any combination of the foregoing, as determined by the Committee. The terms of any other stock-based Award need not be uniform in application to all (or any class of) Participants, and each other stock-based award granted to any Participant (whether or not at the same time) may have different terms.

(b) Termination of Service. In addition to any other terms and conditions that may be specified by the Committee, each other stock-based award shall specify the impact of a Termination of Service upon the rights of a Participant in respect of such Award. At the discretion of the Committee, such conditions may be the same as apply with respect to Restricted Stock or Restricted Stock Units, or may contain terms that are more or less favorable to the Participant.

SECTION 11. DIVIDEND EQUIVALENTS

(a) Generally. Dividend Equivalents may be granted to Participants at such time or times as shall be determined by the Committee; provided that no Dividend Equivalents shall be paid with respect to any unearned Performance Shares or Performance Units. Dividend Equivalents may be granted in tandem with other Awards, in addition to other Awards, or freestanding and unrelated to other Awards. The grant date of any Dividend Equivalents under the Plan will be the date on which the Dividend Equivalent is awarded by the Committee, or such other date as the Committee shall determine in its sole discretion. Dividend Equivalents shall be evidenced in writing, whether as part of the Award Agreement governing the terms of the Award, if any, to which such Dividend Equivalent relates, or pursuant to a separate Award Agreement with respect to freestanding Dividend Equivalents, in each case, containing such provisions not inconsistent with the Plan as the Committee shall determine, including customary representations, warranties and covenants with respect to securities law matters.

SECTION 12. TERMINATION OF EMPLOYMENT OR SERVICE.

(a) Termination Due to Death. Unless otherwise determined by the Committee at or after the time the Award is granted and set forth in the Award Agreement covering such Award, if a Participant's employment or service terminates due to the Participant's death:

(i) With respect to Performance Awards, the Participant's estate shall be entitled to a distribution of, and such Performance Awards shall be deemed immediately vested to the extent of, the same number or value of Performance Awards (without pro-ration) that would have been payable for the Performance Cycle had his or her Service continued until the end of the applicable Performance Cycle as if target performance levels had been achieved. Any Stock issuable in respect of such Performance Awards or value of Performance Awards payable in cash that become payable in accordance with the preceding sentence shall be paid on the earlier of (x) the date the Performance Award would have been paid had the Participant remained in Service through the original payment date and (y) January 31 of the year following the Participant's death.

(ii) All Service Awards shall immediately vest.

(iii) All Service Awards (other than Options and SARs) shall be paid on the earlier of (x) the date the Award would have been paid had the Participant remained in Service through the original payment date and (y) January 31 of the year following the Participant's death.

(iv) All Options and SARs shall remain outstanding until the first anniversary of the date of death or the Award's normal expiration date, whichever is earlier, after which any unexercised Options and SARs shall immediately terminate.

(b) Termination Due to Disability. Unless otherwise determined by the Committee at or after the time the Award is granted and set forth in the Award Agreement covering such Award, if a Participant's employment or service terminates due to the Participant's Disability:

(i) With respect to Performance Awards, the Participant shall be entitled to a distribution of, and such Performance Awards shall be deemed vested to the extent of, the same number or value of Performance Awards (without pro-ration) that would have been payable for the Performance Cycle had his or her Service continued until the end of the applicable Performance Cycle, subject to satisfaction of the applicable Performance Goals. Any Stock issuable in respect of Performance Awards or value of Performance Awards payable in cash that become payable in accordance with the preceding sentence shall be paid at the same time as the Awards are paid to other Participants (or at such earlier time as the Committee may permit).

(ii) All Service Awards shall immediately vest.

(iii) All Service Awards (other than Options and SARs) shall be paid on the earlier of (x) the date the Award would have been paid had the Participant remained in Service through the original payment date and (y) January 31 of the year following the Participant's date of termination due to Disability.

(iv) All Options and SARs shall remain outstanding until the first anniversary of the date of termination or the Award's normal expiration date, whichever is earlier, after which any unexercised Options and SARs shall immediately terminate.

(c) Retirement. Unless otherwise determined by the Committee at or after the grant date and set forth in the Award Agreement covering such Award, if a Participant's Service terminates due to the Participant's Retirement,

(i) With respect to Performance Awards, the Participant shall be entitled to a distribution of, and such Performance Awards shall be deemed vested to the extent of, the number or value of Performance Awards that would have been payable for the Performance Cycle had his or her Service continued until the end of the applicable Performance Cycle, subject to satisfaction of the applicable Performance Goals, multiplied by a fraction, the numerator of which is the number of days elapsed from the commencement of the Performance Cycle through the date of his or her Retirement and the denominator of which is the number of days in the Performance Cycle, and the remainder of each such Performance Award shall be forfeited and canceled as of the date of such Retirement. Any Stock issuable in respect of Performance Awards or value of Performance Awards payable in cash that become payable in accordance with the preceding sentence shall be paid at the same time as the Performance Awards are paid to other Participants (or at such earlier time as the Committee may permit).

(ii) With respect to Service Awards, such Service Awards shall be deemed vested to the extent of, or the Restricted Period shall lapse with respect to, as applicable, the number of shares of Stock subject to such Service Award multiplied by a fraction, the numerator of which is the number of days elapsed from the date of grant of the Service Award through the date of his or her Retirement and the denominator of which is the number of days from the grant date of the Service Award to the date such Service Award would have vested had the Participant's Service continued through the original service period, and the remainder of each such Award shall be forfeited and canceled as of the date of such Retirement.

(iii) Vested Service Awards (other than Options and SARs) shall be paid on the earlier of (x) the date the Service Award would have been paid (or the Restricted Period would have lapsed) had the Participant remained in Service through the original payment date and (y) January 31 of the year following the Participant's Termination of Service.

Notwithstanding anything to the contrary contained in this Plan, if the Award is a Specified Award and the Participant is a Specified Employee, and a Vested Award would otherwise be paid to the Participant pursuant to and on the date specified in clause (iii)(y) above, any such payment required to be made to such Participant under this Plan upon or following the Participant's Termination of Service shall be delayed until six months after the Participant's Termination of Service (or, if earlier, upon the Participant's death) to the extent necessary to comply with, and avoid imposition on the Participant of any tax penalty imposed under, Section 409A of the Code. Should payments be delayed in accordance with the preceding sentence, the accumulated payment that would have been made but for the period of the delay shall be paid in a single lump sum as soon as administratively practicable following the six month anniversary of the Participant's Termination of Service, and not later than 90 days after such six month anniversary.

(iv) All vested Options and SARs shall remain outstanding until the fifth anniversary of the date of termination or the Award's normal expiration date, whichever is earlier, after which any unexercised Options and SARs shall immediately terminate.

(v) The Committee may condition the vesting, distribution, exercise or continuation of such Awards following Retirement on the Participant's refraining from engaging in conduct that is detrimental to the Company (such as competing with the Company or soliciting employees or customers of the Company) following Retirement.

(d) Termination for Cause. Unless otherwise determined by the Committee at or after the grant date and set forth in the Award Agreement covering such Award, if a Participant's employment or service terminates for Cause, all Options and SARs, whether vested or unvested, and all other Awards that are unvested, unexercisable or with respect to which the Restricted Period has not lapsed shall be immediately forfeited and canceled, effective as of the date of the Participant's Termination of Service.

(e) Involuntary Termination for any Other Reason. Unless otherwise determined by the Committee at or after the time the Award is granted and set forth in the Award Agreement covering such Award, if a Participant's employment or service is terminated by the Company for any reason other than death, Disability, Retirement or Cause,

(i) all Performance Awards for which the Performance Cycle has been completed and which are earned but unpaid as of the date of Termination of Service shall be paid at the same times as the Performance Award is paid to other Participants, and all other Awards that are unvested, unexercisable or with respect to which the Restricted Period has not lapsed shall be immediately forfeited and canceled as of the date of Termination of Service.

(ii) All vested Options and SARs shall remain outstanding until the 90th day after of the date of Termination of Service or the Award's normal expiration date, whichever is earlier, after which any unexercised Options and SARs shall immediately terminate.

(f) Voluntary Termination by the Participant. Unless otherwise determined by the Committee at or after the time the Award is granted and set forth in the Award Agreement covering such Performance Shares or Performance Units, if a Participant terminates his or her Service with the Company (other than by reason of death, Disability or Retirement), all Options and SARs, whether vested or unvested, and all other Awards that are unvested, unexercisable or with respect to

which the Restricted Period has not lapsed shall be immediately forfeited and canceled, effective as of the date of the Participant's Termination of Service.

(g) Termination in Connection with a Change in Control. Notwithstanding anything to the contrary in this Section 12, Section 13 shall determine the treatment of Awards upon a Change in Control.

SECTION 13. CHANGE IN CONTROL

(a) Change in Control. Unless otherwise determined by the Committee, as otherwise provided in an Award Agreement, or as provided in Section 13(b) or 13(d), in the event of a Change in Control,

(i) no cancellation, termination, acceleration of exercisability or vesting, lapse of any Restriction Period or settlement or other payment shall occur with respect to any such outstanding Awards, provided that such outstanding Awards shall be honored or assumed, or new rights substituted therefor (such honored, assumed or substituted Award, an "Alternative Award") by the New Employer, provided that any Alternative Award must:

(A) be based on shares of Stock that are traded on an established U.S. securities market;

(B) provide the Participant (or each Participant in a class of Participants) with rights and entitlements substantially equivalent to or better than the rights, terms and conditions applicable under such Award, including, but not limited to, an identical or better exercise or vesting schedule and identical or better timing and methods of payment;

(C) have substantially equivalent economic value to such Award (determined at the time of the Change in Control); and

(D) have terms and conditions which provide that in the event that the Participant suffers a Termination for Business Reasons within 24 months after the occurrence of a Change in Control:

(I) all outstanding Service Awards held by a terminated Participant shall become vested and exercisable and the Restriction Period on all such outstanding Service Awards shall lapse;

(II) each outstanding Performance Award held by a terminated Participant (a) with a Performance Cycle in progress at the time of the Termination for Business Reasons, shall be deemed to be earned and become vested and/or paid out in an amount equal to the product of (u) such Participant's target award opportunity with respect to such Award for the Performance Cycle in question and (v) the greater of the level of actual achievement of the Performance Goals (which Performance Goals shall be adjusted, if necessary or appropriate, to reflect the portion of the Performance Cycle that has been completed) as of the date of the Change in Control and as of the last day of the fiscal quarter ended on or immediately prior to the date of Termination of Service, (b) with a completed Performance Cycle as of the date of either the Change in Control or the Termination for Business Reasons shall be deemed to be earned and become vested and/or paid out in an amount equal to the product of (w) such Participant's target award opportunity with respect to such Award for the Performance Cycle in question and (x) the actual level of achievement of the Performance Goals, and (c) with a Performance Cycle that has not yet commenced at the time of the Termination for Business Reasons, shall be deemed to be earned and become vested and/or paid out in an amount equal to the product of (y) such Participant's target award opportunity with respect to such Award for the Performance Cycle in question and (z) 100% and (unless determined otherwise by the Committee) the portion of any Performance Award that

does not vest in accordance with this paragraph shall be forfeited and canceled without any payment therefor as of the date of Termination of Service; and

(III) notwithstanding anything in this Section 13(a)(i)(D), with respect to any Award granted during the year in which the Change in Control occurs, unless otherwise determined by the Committee prior to the Change in Control, the number of outstanding Awards held by a terminated Participant that shall become vested and exercisable, the number of Awards with respect to which the Restriction Period shall lapse and/or the number of Awards that shall be earned and become vested and/or paid out, as applicable, shall be multiplied by a fraction, the numerator of which is the number of days elapsed from the first day of the calendar year in which the Change in Control occurs (or, if later, the date the Participant commenced Service) through the date of the Participant's Termination of Service and the denominator of which is the number of days in such calendar year and (unless determined otherwise by the Committee) the remainder of each such Award shall be forfeited and canceled without any payment therefor as of the date of Termination of Service.

(IV) Payments. To the extent permitted under Section 15(l), all amounts payable hereunder shall be payable in full, as soon as reasonably practicable, but in no event later than 10 business days, following termination.

(ii) with respect to Awards other than Specified Awards, if no Alternative Awards are available, then immediately prior to the consummation of the transaction constituting the Change in Control, (A) all unvested Service Awards shall vest and the Restriction Period on all such outstanding Service Awards shall lapse; (B) (1) each outstanding Performance Award with a Performance Cycle in progress or a completed Performance Cycle at the time of the Change in Control shall be deemed to be earned and become vested and/or paid out in an amount equal to the product of (w) such Participant's target award opportunity with respect to such Award for the Performance Cycle in question and (x) the level of actual achievement of the Performance Goals as of the date of the Change in Control (which Performance Goals shall be adjusted, if necessary or appropriate, to reflect the portion of the Performance Cycle that has been completed), (2) each outstanding Performance Award with a Performance Cycle that has not commenced at the time of the Change in Control shall be deemed to be earned and become vested and/or paid out in an amount equal to product of (y) such Participant's target award opportunity with respect to such Award for the Performance Cycle in question and (z) 100%, and (3) all other Performance Awards shall lapse and be canceled and forfeited upon consummation of the Change in Control; and (C) shares of Stock underlying all Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, Deferred Share Units and other stock-based Awards that are vested or for which the Restriction Period has lapsed (as provided in this Section 13(a) or otherwise) shall be issued or released to the Participant holding such Award. Notwithstanding the foregoing, with respect to any Award granted during the year in which the Change in Control occurs, unless otherwise determined by the Committee prior to the Change in Control, the number of outstanding Awards that shall become vested and exercisable, with respect to which the Restriction Period shall lapse, and/or that shall be earned and become vested and/or paid out, as applicable, as provided above shall be multiplied by a fraction, the numerator of which is the number of days elapsed from the first day of the calendar year in which the Change in Control occurs (or, if later, the date the Participant commenced Service) through the date of the Change in Control and the denominator of which is the number of days in such calendar year, and (unless determined otherwise by the Committee) the remainder of each such Award shall be forfeited and

canceled without any payment therefor as of the date of the Change in Control.

(iii) with respect to Specified Awards, in the event of a Change in Control that is not a Specified Change in Control, if no Alternative Awards are available, or Alternative Awards may not be issued in a manner that complies with Section 409A of the Code or without the imposition of any additional taxes or interest under Section 409A of the Code, the Committee, as constituted immediately prior to the Change in Control, may determine that Awards may be settled through a cash payment equal to the Change in Control Price multiplied by the number of vested Awards (reduced by any required exercise price) plus interest from the later of the vesting date and the Change in Control through the date of payment at a rate determined by the Committee as constituted immediately prior to the Change in Control to the extent to that such settlement shall not subject the Participant holding such Award to any additional taxes or interest under Section 409A of the Code or in such other manner that shall comply with Section 409A of the Code.

(b) Specified Change in Control. Unless otherwise determined by the Committee at or prior to the time of grant or as otherwise provided in an Award Agreement entered into after November 3, 2008, notwithstanding anything in this Plan with respect to any Specified Awards, in the event of a Specified Change in Control then all of the Specified Awards shall be subject to the treatment provided in Section 13(a)(ii) as if they were Awards other than Specified Awards (it being understood for this purpose that Alternative Awards shall be deemed unavailable for such Specified Awards). Unless otherwise determined by the Committee at or prior to the time of grant or as otherwise provided in an Award Agreement entered into after November 3, 2008, in each case in compliance with Section 409A of the Code, no other Change in Control shall trigger any payment, issuance, release or settlement of a Specified Award.

(c) Termination for Business Reasons Prior to a Change in Control. Unless otherwise determined by the Committee at or after the time of grant, any Participant whose employment or service is terminated due to a Termination for Business Reasons within 3 months prior to the occurrence of a Change in Control shall be treated, solely for the purposes of this Plan (including, without limitation, this Section 13) as continuing in the Company's employment or service until the occurrence of such Change in Control, and to have been terminated immediately thereafter.

(d) Committee Discretion. Notwithstanding anything in this Section 13 to the contrary, except as otherwise provided in an Award Agreement, if the Committee as constituted immediately prior to the Change in Control determines in its sole discretion, then all Awards shall be canceled in exchange for a cash payment equal to (x)(A) in the case of Option and SAR Awards that are vested (as provided in Section 13(a) or otherwise), the excess, if any, of the Change in Control Price over the exercise price for such Option or SAR and (B) in the case of all other Awards that are vested or for which the Restricted Period has lapsed (as provided in Section 13(a) or otherwise), the Change in Control Price, multiplied by (y) the aggregate number of shares of Common Stock covered by such Award, provided, however, that no Specified Award shall be cancelled in exchange for a cash payment unless the Change in Control is a Specified Change in Control or such payment may be made without the imposition of any additional taxes or interest under Section 409A of the Code. The Committee may, in its sole discretion, accelerate the exercisability or vesting or lapse of any Restriction Period with respect to all or any portion of any outstanding Award immediately prior to the consummation of the transaction constituting the Change in Control, provided, however, that no such acceleration or vesting or lapse may be exercised with respect to any Specified Award to the extent that such exercise would result in the imposition of any additional tax, interest or penalty under Section 409A of the Code.

SECTION 14. EFFECTIVE DATE, AMENDMENT, MODIFICATION, AND TERMINATION OF THE PLAN

The Plan shall be effective on the Effective Date, and shall continue in effect, unless sooner terminated pursuant to this Section 14, until the tenth anniversary of the Effective Date. The Board of Directors or the Committee may at any time in its sole discretion, for any reason whatsoever, terminate or suspend the Plan, and from time to time, subject to obtaining any regulatory approval, including that of the New York Stock Exchange and the Toronto Stock Exchange, if applicable, may amend or modify the Plan; provided that without the approval by a majority of the votes cast at a duly constituted meeting of shareholders of the Company, no amendment or modification to the Plan may (i) materially increase the benefits accruing to Participants under the Plan, (ii) except as otherwise expressly provided in Section 4(d), increase the number of shares of Stock subject to the Plan or the individual Award limitations specified in Section 4(c), (iii) modify the class of persons eligible for participation in the Plan (iv) allow Options to be issued with an exercise price below Fair Market Value on the date of grant (v) extend the term of any Award granted under the Plan beyond its original expiry date or (vi) materially modify the Plan in any other way that would require shareholder approval under any regulatory requirement that the Committee determines to be applicable, including, without limitation, the rules of the New York Stock Exchange and the Toronto Stock Exchange. Notwithstanding any provisions of the Plan to the contrary, neither the Board of Directors nor the Committee may, without the consent of the affected Participant, amend, modify or terminate the Plan in any manner that would adversely affect any Award theretofore granted under the Plan or result in the imposition of an additional tax, interest or penalty under Section 409A of the Code.

SECTION 15. GENERAL PROVISIONS

(a) Withholding. The Employer shall have the right to deduct from all amounts paid to a Participant in cash (whether under this Plan or otherwise) any amount of taxes required by law to be withheld in respect of Awards under this Plan as may be necessary in the opinion of the Employer to satisfy tax withholding required under the laws of any country, state, province, city or other jurisdiction, including but not limited to income taxes, capital gains taxes, transfer taxes, and social security contributions that are required by law to be withheld. In the case of payments of Awards in the form of Stock, at the Committee's discretion, the Participant shall be required to either pay to the Employer the amount of any taxes required to be withheld with respect to such Stock or, in lieu thereof, the Employer shall have the right to retain (or the Participant may be offered the opportunity to elect to tender) the number of shares of Stock whose Fair Market Value equals such amount required to be withheld.

(b) Nontransferability of Awards. Except as provided herein or in an Award Agreement, no Award may be sold, assigned, transferred, pledged or otherwise encumbered except by will or the laws of descent and distribution; provided that the Committee may permit (on such terms and conditions as it shall establish) a Participant to transfer an Award for no consideration to the Participant's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the Participant's household (other than a tenant or employee), a trust in which these persons have more than fifty percent of the beneficial interest and any other entity in which these persons (or the Participant) own more than fifty percent of the voting interests ("Permitted Transferees"). No amendment to the Plan or to any Award shall permit transfers other than in accordance with the preceding sentence. Any attempt by a Participant to sell, assign, transfer, pledge or encumber an Award without complying with the provisions of the Plan shall be void and of no effect. Except to the extent required by law, no right or interest of any Participant shall be subject to any lien, obligation or liability of the

Participant. All rights with respect to Awards granted to a Participant under the Plan shall be exercisable during the Participant's lifetime only by such Participant or, if applicable, his or her Permitted Transferee(s). The rights of a Permitted Transferee shall be limited to the rights conveyed to such Permitted Transferee, who shall be subject to and bound by the terms of the agreement or agreements between the Participant and the Company.

(c) No Limitation on Compensation. Nothing in the Plan shall be construed to limit the right of the Company to establish other plans or to pay compensation to its Employees, in cash or property, in a manner which is not expressly authorized under the Plan.

(d) No Right to Employment. No person shall have any claim or right to be granted an Award, and the grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Employer. The grant of an Award hereunder, and any future grant of Awards under the Plan is entirely voluntary, and at the complete discretion of the Company. Neither the grant of an Award nor any future grant of Awards by the Company shall be deemed to create any obligation to grant any further Awards, whether or not such a reservation is explicitly stated at the time of such a grant. The Plan shall not be deemed to constitute, and shall not be construed by the Participant to constitute, part of the terms and conditions of employment and participation in the Plan shall not be deemed to constitute, and shall not be deemed by the Participant to constitute, an employment or labor relationship of any kind with the Company. The Employer expressly reserves the right at any time to dismiss a Participant free from any liability, or any claim under the Plan, except as provided herein and in any agreement entered into with respect to an Award. The Company expressly reserves the right to require, as a condition of participation in the Plan, that Award recipients agree and acknowledge the above in writing. Further, the Company expressly reserves the right to require Award recipients, as a condition of participation, to consent in writing to the collection, transfer from the Employer to the Company and third parties, storage and use of personal data for purposes of administering the Plan.

(e) No Rights as Shareholder. Subject to the provisions of the applicable Award contained in the Plan and in the Award Agreement, no Participant, or Permitted Transferee or, in the event of such Participant's death, such Participant's estate) shall have any rights as a shareholder with respect to any shares of Stock to be distributed under the Plan until he or she has become the holder thereof.

(f) Forfeiture for Financial Reporting Misconduct; Other Compensation Clawbacks. If the Company is required to prepare an accounting restatement due to material noncompliance by the Company with any financial reporting requirement under the securities laws, and if a Participant knowingly or grossly negligently engaged in the misconduct or knowingly or grossly negligently failed to prevent the misconduct as determined by the Committee, or if the Participant is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, then the Participant shall forfeit and disgorge to the Company (i) any Awards granted or vested and all gains earned or accrued due to the exercise of Options or SARS or sale of any Stock during the 12-month period following the filing of the financial document embodying such financial reporting requirement and (ii) any other Awards that vested based on the materially non-complying financial reporting. The Company may also cancel or reduce, or require a Participant to forfeit and disgorge to the Company or reimburse the Company for, any Awards granted or vested and any gains earned or accrued, due to the exercise, vesting or settlement of Awards or sale of any Stock pursuant to an Award under the Plan, to the extent permitted or required by, or pursuant to any Company policy implemented as required by, applicable law, regulation or stock exchange rule as from time to time may be in effect (including but not limited to The Dodd-Frank Wall Street Reform and Consumer Protection Act and regulations and stock exchange rules promulgated pursuant to or as a result of such Act) or otherwise.

(g) Construction of the Plan. The validity, construction, interpretation, administration and effect of the Plan and of its rules and regulations, and rights relating to the Plan, shall be determined solely in accordance with the laws of the State of Delaware (without reference to the principles of conflicts of law).

(h) Compliance with Legal and Exchange Requirements. The Plan, the granting and exercising of Awards thereunder, and any obligations of the Company under the Plan, shall be subject to all applicable federal, state, and foreign country laws, rules, and regulations, and to such approvals by any regulatory or governmental agency as may be required, and to any rules or regulations of any exchange on which the Stock is listed. The Company, in its discretion, may postpone the granting and exercising of Awards, the issuance or delivery of Stock under any Award or any other action permitted under the Plan to permit the Company, with reasonable diligence, to complete such stock exchange listing or registration or qualification of such Stock or other required action under any federal, state or foreign country law, rule, or regulation and may require any Participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of Stock in compliance with applicable laws, rules, and regulations. The Company shall not be obligated by virtue of any provision of the Plan to recognize the exercise of any Award or to otherwise sell or issue Stock in violation of any such laws, rules, or regulations, and any postponement of the exercise or settlement of any Award under this provision shall not extend the term of such Awards. Neither the Company nor its directors or officers shall have any obligation or liability to a Participant with respect to any Award (or Stock issuable thereunder) that shall lapse because of such postponement.

(i) Deferrals. Subject to the requirements of Section 409A of the Code, the Committee may postpone the exercising of Awards, the issuance or delivery of Stock under, or the payment of cash in respect of, any Award or any action permitted under the Plan, upon such terms and conditions as the Committee may establish from time to time. Subject to the requirements of Section 409A of the Code, a Participant may electively defer receipt of the shares of Stock or cash otherwise payable in respect of any Award (including, without limitation, any shares of Stock issuable upon the exercise of an Option other than an Incentive Stock Option) upon such terms and conditions as the Committee may establish from time to time.

(j) Indemnification. Each person who is or shall have been a member of the Committee and each delegate of such Committee shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be made a party or in which he or she may be involved in by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided that the Company is given an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it personally. The foregoing right of indemnification shall not be exclusive and shall be independent of any other rights of indemnification to which such persons may be entitled under the Company's Articles of Incorporation or By-laws, by contract, as a matter of law, or otherwise.

(k) Amendment of Award. In the event that the Committee shall determine that such action would, taking into account such factors as it deems relevant, be beneficial to the Company, the Committee may affirmatively act to amend, modify or terminate any outstanding Award at any time prior to payment or exercise in any manner not inconsistent with the terms of the Plan, including without limitation, change the date or dates as of which (A) an Option or SAR becomes exercisable, (B) a Performance Share or Performance Unit is deemed earned, or (C) Restricted

Stock, Restricted Stock Units, Deferred Share Units and other Stock-based Awards becomes nonforfeitable, except that no outstanding Option may be amended or otherwise modified or exchanged (other than in connection with a transaction described in Section 4(d)) in a manner that would have the effect of reducing its original exercise price or otherwise constitute repricing. Any such action by the Committee shall be subject to the Participant's consent if the Committee determines that such action would adversely affect the Participant's rights under such Award, whether in whole or in part. The Committee may, in its sole discretion, accelerate the exercisability or vesting or lapse of any Restriction Period with respect to all or any portion of any outstanding Award at any time. Notwithstanding any provisions of the Plan to the contrary, the Committee may not, without the consent of the affected Participant, amend, modify or terminate an outstanding Award or exercise any discretion in any manner that would result in the imposition of an additional tax, interest or penalty under Section 409A of the Code.

(l) 409A Compliance. The Plan is intended to be administered in a manner consistent with the requirements, where applicable, of Section 409A of the Code. Where reasonably possible and practicable, the Plan shall be administered in a manner to avoid the imposition on Participants of immediate tax recognition and additional taxes pursuant to such Section 409A. Notwithstanding the foregoing, neither the Company nor the Committee, nor any of the Company's directors, officers or employees shall have any liability to any person in the event such Section 409A applies to any such Award in a manner that results in adverse tax consequences for the Participant or any of his beneficiaries or transferees. Notwithstanding any provision of this Plan or any Award Agreement to the contrary, the Board of the Directors or the Committee may unilaterally amend, modify or terminate the Plan or any outstanding Award, including but not limited to changing the form of Award, if the Board or Committee determines, in its sole discretion, that such amendment, modification or termination is necessary or advisable to comply with applicable U.S. law as a result of changes in law or regulation or to avoid the imposition of an additional tax, interest or penalty under Section 409A of the Code.

(m) No Impact on Benefits. Except as may otherwise be specifically stated under any employee benefit plan, policy or program, no amount payable in respect of any Award shall be treated as compensation for purposes of calculating a Participant's right under any such plan, policy or program.

(n) No Constraint on Corporate Action. Nothing in this Plan shall be construed (a) to limit, impair or otherwise affect the Company's right or power to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets or (b) to limit the right or power of the Company, or any Subsidiary, to take any action which such entity deems to be necessary or appropriate.

(o) Headings and Captions. The headings and captions herein are provided for reference and convenience only, shall not be considered part of this Plan, and shall not be employed in the construction of this Plan.

December 11, 2019

DOMTAR CORPORATION
ANNUAL INCENTIVE PLAN FOR MEMBERS OF THE MANAGEMENT COMMITTEE

SECTION 1. PURPOSE

The purposes of the Plan are to enable the Company and its Subsidiaries to attract, retain, motivate and reward the best qualified executive officers by providing them with the opportunity to earn competitive compensation directly linked to the Company's performance.

SECTION 2. DEFINITIONS

Unless the context requires otherwise; the following words as used in the Plan shall have the meanings ascribed to each below, it being understood that masculine, feminine and neuter pronouns are used interchangeably and that each comprehends the others.

- (a) "Act" means the Securities and Exchange Act of 1934, as amended.
 - (b) "Board" means the Board of Directors of the Company.
 - (c) "Change in Control" shall have the meaning set forth in the Omnibus Plan..
 - (d) "Committee" means the Human Resources and Compensation Committee of the Board or such other committee of the Board as the Board shall designate from time to time, consisting of two or more members, each of whom is an "independent" director under New York Stock Exchange Listing requirements, a "Non-Employee Director" within the meaning of Rule 16b-3, as promulgated under the Act, and an "outside director" within the meaning of Section 162(m) of the *Internal Revenue Code of 1986*, as amended.
 - (e) "Company." means Domtar Corporation.
 - (f) "Covered Employee" shall have the meaning set forth in Section 162(m).
 - (g) "Executive Officer" means a member of the Company's Management Committee, as appointed from time to time by the Board of Directors upon recommendation of the Committee after consultation with the President and Chief Executive Officer.
 - (h) "Omnibus Plan" means the Amended and Restated Domtar Corporation 2007 Omnibus Incentive Plan.
 - (i) "Participant" means each Executive Officer of the Company and Covered Employee, as well as any former member of the Management Committee who retained Management Committee-level benefits and is still employed by the Company.
 - (j) "Performance Period" means each fiscal year or another period as designated by the Committee, so long as such period does not exceed one year.
 - (k) "Plan" means this Domtar Corporation Annual Incentive Plan, as set forth herein and as may hereafter be amended from time to time.
 - (l) "Section 162(m)" means Section 162(m) of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.
-

(m) "Subsidiary" means any business entity in which the Company owns, directly or indirectly, fifty percent (50%) or more of the total combined voting power of all classes of stock entitled to vote, and any other business organization, regardless of form, in which the Company possesses, directly or indirectly, 50% or more of the total combined equity interests.

SECTION 3. ADMINISTRATION

The Committee shall administer and interpret the Plan, provided that, in no event, shall the Plan be interpreted in a manner which would cause any award intended to be qualified as performance based compensation under Section 162(m) to fail to so qualify. The Committee shall establish the performance objectives for any fiscal year or other Performance Period determined by the Committee in accordance with Section 4 and certify whether such performance objectives have been obtained. Any determination made by the Committee under the Plan shall be final and conclusive. The Committee may employ such legal counsel, consultants and agents (including counsel or agents who are employees of the Company or a Subsidiary) as it may deem desirable for the administration of the Plan and may rely upon any opinion received from any such counsel or consultant or agent and any computation received from such consultant or agent. All expenses incurred in the administration of the Plan, including, without limitation, for the engagement of any counsel, consultant or agent, shall be paid by the Company. No member or former member of the Board or the Committee shall be liable for any act, omission, interpretation, construction or determination made in connection with the Plan other than as a result of such individual's willful misconduct.

SECTION 4. BONUSES

(a) Performance Criteria. Within 90 days after each Performance Period begins (or such other date as may be required or permitted under Section 162(m)) but not later than the date on which 25% of the performance period has lapsed, the Committee shall establish the performance objective or objectives that must be satisfied in order for a Participant to receive a bonus award for such Performance Period. Unless the Committee determines at the time of grant not to qualify the award as performance-based compensation under Section 162(m), any such performance objectives will be based upon the relative or comparative achievement of one or more of the following criteria, whether in absolute terms or relative to the performance of one or more similarly situated companies or a published index covering the performance of a number of companies, as determined by the Committee for the Performance Period: operating earnings, net earnings, income, earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization, total shareholder return, return on the Company's assets, increase in the Company's earnings or earnings per share, revenue growth, share price performance, return on invested capital, operating income, pre- or post-tax, income, net income, economic value added, cash flow, improvement in or attainment of expense levels, improvement in or attainment of working capital levels, return on equity, debt reduction, gross profit, market share, cost reductions, workplace safety goals, workforce satisfaction and diversity goals, employee retention, completion of key projects, strategic plan development, and implementation and achievement of synergy targets. Performance Goals may be established on a Company-wide basis or with respect to one or more business units, divisions, Subsidiaries, or products; and in either absolute terms or relative to the performance of one or more comparable companies or an index covering multiple companies.

When establishing Performance Goals for a Performance Period, the Committee may exclude any or all "unusual or infrequently occurring items" as determined under U.S. generally accepted accounting principles and as identified in the financial statements, notes to the financial statements or management's discussion and analysis in the annual report, including, without limitation, the charges or costs associated with closures and restructurings of the Company or any Subsidiary,

discontinued operations, unusual or infrequently occurring items, capital gains and losses, dividends, share repurchase, other unusual, infrequently occurring or non-recurring items, and the cumulative effects of accounting changes. Except in the case of Awards to Executive Officers intended to be "other performance-based compensation" under Section 162(m)(4) of the Code, the Committee may also adjust the Performance Goals for any Performance Cycle as it deems equitable in recognition of unusual, infrequently occurring or non-recurring events affecting the Company, changes in applicable tax laws or accounting principles, or such other factors as the Committee may determine (including, without limitation, any adjustments that would result in the Company paying non-deductible compensation to a Participant).

(b) Maximum Amount Payable. If the Committee certifies in writing that any of the performance objectives established for the relevant Performance Period under Section 4(a) has been satisfied, and subject to Section 4(c) or applicable law, each Participant who is employed by the Company or one of its Subsidiaries on the last day of the Performance Period for which the bonus is payable shall be entitled to receive an annual bonus in an amount not to exceed \$5,000,000. If a Participant's employment terminates for any reason other than resignation or for Cause (as such term is defined in the Omnibus Plan) (including, without limitation, his or her death, disability or retirement as these terms may be defined in the Omnibus Plan) prior to the last day of the Performance Period for which the bonus is payable, the maximum bonus payable to such Participant under the preceding sentence shall be multiplied by a fraction, the numerator of which is the number of days that have elapsed during the Performance Period in which the termination occurs prior to and including the date of the Participant's termination of employment and the denominator of which is the total number of days in the Performance Period.

(c) Termination of Employment. Unless otherwise determined by the Committee in its sole discretion at the time the performance criteria are selected for a particular Performance Period in accordance with Section 4(a), if a Participant's employment terminates for any reason prior to the date on which the award is paid hereunder, such Participant shall not earn and shall forfeit all rights to any and all awards which have not yet been paid under the Plan; provided that if a Participant's employment terminates as a result of death, disability or retirement (as these terms may be defined in the Omnibus Plan) the Committee shall give consideration at its sole discretion to the payment of a full or partial bonus with regard to, respectively, the entirety or portion of the Performance Period worked. Notwithstanding the foregoing, if a Participant's employment terminates for any reason prior to the date on which the award is paid hereunder, the Committee, in its discretion, may waive any forfeiture pursuant to Section 4 in whole or in part. The Committee has exercised such discretion in the Severance Program for Management Committee Members.

(d) Negative Discretion. Notwithstanding anything else contained in Section 4(b) to the contrary (but subject to Section 4(f)), the Committee shall have the right, in its absolute discretion, (i) to reduce or eliminate the amount otherwise payable to any Participant under Section 4(b) based on individual performance or any other factors that the Committee, in its discretion, shall deem appropriate and (ii) to establish rules or procedures that have the effect of limiting the amount payable to each Participant to an amount that is less than the maximum amount otherwise authorized under Section 4(b).

(e) Compensation Clawbacks. The Company may cancel or reduce, or require a Participant to forfeit and disgorge to the Company or reimburse the Company for, any bonus awards granted or paid under the Plan, to the extent permitted or required by, or pursuant to any Company policy implemented as required by, applicable law, regulation or stock exchange rule as from time to time may be in effect (including but not limited to The Dodd-Frank Wall Street Reform and Consumer Protection Act and regulations and stock exchange rules promulgated pursuant to or as a result of such Act) or otherwise.

(f) Change in Control. Notwithstanding anything to the contrary contained herein, in the event of a Change in Control, the annual bonus payable pursuant to Section 4(b) with respect to the fiscal year in which the Change in Control occurs shall not be less than the bonus amount accrued on the books and records of the Company as of the date of the Change in Control.

SECTION 5. PAYMENT

Except as otherwise provided hereunder, payment of any bonus amount determined under Section 4 shall be made to each Participant as soon as practicable after the Committee certifies that one or more of the applicable performance objectives have been attained (or, in the case of any bonus payable under the provisions of Section 4(d), after the Committee determines the amount of any such bonus) and in any event within two and a half months of the end of the fiscal year in which the Performance Period ends.

SECTION 6. FORM OF PAYMENT

The Committee shall determine whether any bonus payable under the Plan is payable in cash, in shares of Common Stock or in any combination thereof. Awards of shares under this Plan may be issued under the Omnibus Plan in forms including, without limitation, Restricted Stock and Restricted Stock Units. The Committee shall have the right to impose whatever conditions it deems appropriate with respect to the award of shares of Common Stock, including conditioning the vesting of such shares on the performance of additional service.

SECTION 7. GENERAL PROVISIONS

(a) Effectiveness of the Plan. The Plan shall be effective with respect to Performance Periods beginning on or after March 7, 2007 and ending on or before December 31, 2012, unless the term hereof is extended by action of the Board, subject in the case of years after 2012 to approval by the Company's shareholders at or before its 2013 annual meeting of shareholders. Upon approval by the Company's shareholders at or before its 2013 annual meeting of shareholders and at each additional meeting of shareholders at which this Plan is approved by the Company's shareholders, the Performance Periods and the term hereof shall be extended for an additional five years.

(b) Amendment and Termination. Notwithstanding Section 7(a), the Board or the Committee may at any time amend, suspend, discontinue or terminate the Plan; provided; however, that no such action shall be effective without approval by the shareholders of the Company to the extent necessary to continue to qualify the amounts payable hereunder to Covered Employees as performance-based compensation under Section 162(m).

(c)

In Case of Death. If the Participant dies during the plan year and is eligible for a bonus payment, the estate of the Participant will receive the payment.

(d) No Right of Continued Employment. Nothing in this Plan shall be construed as conferring upon any Participant any right to continue in the employment of the Company or any of its Subsidiaries.

(e) No Limitation on Corporate Actions. Nothing contained in the Plan shall be construed to prevent the Company or any Subsidiary from taking any corporate action which is deemed by it to be appropriate or in its best interest, whether or not such action would have an adverse effect on any

awards made under the Plan. No employee, beneficiary or other person shall have any claim against the Company or any Subsidiary as a result of any such action.

(f) Non-alienation of Benefits. Except as expressly provided herein, no Participant or beneficiary shall have the power or right to transfer, anticipate, or otherwise encumber the Participant's interest under the Plan. The Company's obligations under this Plan are not assignable or transferable except to (i) a corporation which acquires all or substantially all of the Company's assets or (ii) any corporation into which the Company may be merged or consolidated. The provisions of the Plan shall inure to the benefit of each Participant and the Participant's beneficiaries; heirs, executors, administrators or successors in interest.

(g) Withholding. Any amount payable to a Participant or a beneficiary under this Plan shall be subject to any applicable Federal, state and local income and employment taxes and any other amounts that the Company or a Subsidiary is required at law to deduct and withhold from such payment.

(h) Severability. If any provision of this Plan is held unenforceable, the remainder of the Plan shall continue in full force and effect without regard to such unenforceable provision and shall be applied as though the unenforceable provision were not contained in the Plan.

(i) Governing Law. The Plan shall be construed in accordance with and governed by the laws of the State of Delaware, without reference to the principles of conflict of laws.

(j) Headings. Headings are inserted in this Plan for convenience of reference only and are to be ignored in a construction of the provisions of the Plan.

December 11, 2019

January 7, 2021

Michael Fagan
6028 Crescent Knoll Drive
Raleigh, NC 27614

Re: Retention Bonus Letter Agreement (“Agreement”)

Dear Mike:

As we are moving forward with the sale of the Personal Care business (“Project Journey”), your continued leadership and cooperative approach during this time of transition is critical to ensuring a successful closing of the sale. We believe that your personal involvement and strong motivation for success will help ensure that we execute a transaction that maximizes the shareholder value.

In exchange for your continued service with Domtar through and until a successful completion of the Personal Care Division sale, we will provide you with a Retention Bonus in the amount of \$816,156, less lawful withholdings and deductions (“Retention Bonus”). The triggering event for the Retention Bonus is the earlier of (1) a closing of the sale of Personal Care as a result of Project Journey (the “Closing”), and (2) December 31, 2021 (“Retention Date”).

Should you resign your employment or be terminated for “Cause” prior to the Closing or the Retention Date, you will not be eligible to earn and will not receive the Retention Bonus. “Cause” shall be defined as (a) you are convicted of or plead no contest to any crime that would constitute a felony or involves dishonesty, fraud or moral turpitude, (b) you engage in any willful misconduct that causes material harm to the business, standing or reputation of Domtar, (c) you engage in the unauthorized disclosure of trade secret or confidential information, (d) you abandon your job, or (e) you continually fail to substantially perform job duties provided that you have first been provided written notice of such failure and an opportunity to cure such failure. If the company terminates your employment for reasons *other than* Cause prior to the Closing or Retention Date, then you will still be entitled to receive the Retention Bonus.

If earned, the Retention Bonus will be paid 30 to 45 days following the Retention Date (or, in the case of an earlier Closing, 30 to 45 days following Closing). It will not be used in calculations for any other benefits or compensation including, but not limited to, any severance calculation. For greater clarity, such lump sum amount will not be included in Compensation under the Domtar Personal Care 401(k) Plan, under the DB SERP for Management Committee Members and under the DC SERP for Designated executives of Domtar Personal Care.

This Agreement does not alter your at-will employment status, and all other terms and conditions associated with your compensation package remain unchanged.

Thank you for your continued service.

John D. Williams, President & Chief Executive Officer



PERSONAL AND CONFIDENTIAL

December 16, 2020

Mr. Michael D. Garcia
820 Huntington Park Drive
Charlotte, North Carolina 28211

Dear Mike:

This letter (the "Separation Agreement") sets forth our mutual understanding and agreement concerning your separation from employment with Domtar Corporation and its subsidiaries and affiliates (collectively, the "Corporation" or "Domtar") in connection with an employment termination program offered to the Sales General and Administration (the "SG&A") employees of the Corporation.

1. Separation Date. Your last day of employment with the Corporation will be January 4, 2021 (the "Separation Date"). On the next regular payroll date following the Separation Date, the Corporation will pay you for any earned but unpaid wages, and any accrued and unused vacation as of the Separation Date, whether or not you execute and deliver this Separation Agreement to the Corporation.

2. Severance Pay and Separation Benefits. In consideration for and subject to your timely execution, delivery and non-revocation of this Separation Agreement and the general release of claims (the "Release") attached hereto as Exhibit B within the timeframe stated below, and compliance with all terms of this Separation Agreement and Sections 12, 13, 14 and 15 of the Employment Agreement (as defined below), the Corporation will provide you with the payments and benefits set forth below:

a. Severance Allowance. The Corporation will pay you a severance allowance in accordance with Section 9 of your Employment Agreement, dated as of January 27, 2014, by and between you and the Corporation (the "Employment Agreement"), and Domtar's Amended & Restated Severance Program for Management Committee Members (the "Severance Plan") in a total amount of \$1,359,278, less applicable tax and withholding (the "Severance Allowance"), which represents twenty-four (24) months of your current base salary as pay in lieu of notice of termination. Such amount shall be payable in a lump sum within ninety (90) days following the Separation Date, but in no event later than March

15, 2021, subject to the terms and conditions of the Employment Agreement, Severance Plan and this Separation Agreement.

b. *Annual Incentive Plan.* You will receive a bonus under Domtar's Annual Incentive Plan for 2020 (the "AIP") in accordance with the Severance Plan. This bonus will be based on your individual performance and the Pulp and Paper Division's performance relative to the performance criteria under the AIP as of the fiscal year ended immediately prior to the Separation Date (or such greater amount as is payable under the AIP), calculated based on your base salary of \$679,639 and bonus target of 89% (and excluding any payments made in 2020 under this Separation Agreement). Payment will be made in accordance with the terms of the AIP at the same time as your Severance Allowance is paid, but in no event later than March 15, 2021.

c. *Treatment of Equity.* You hold unvested equity awards under the Amended and Restated Domtar Corporation 2007 Omnibus Incentive Plan (the "Omnibus Plan") as set forth on Exhibit A attached hereto. Notwithstanding anything to the contrary contained in the Omnibus Plan or your award agreements, and subject to the terms and conditions of this Separation Agreement, in consideration for your years of service, your promises herein and your timely execution, delivery and non-revocation of the Release, (i) any unvested stock options granted to you under the Omnibus Plan and as set forth on Exhibit A attached hereto shall vest immediately as of the Separation Date, and you will have until the earlier of (x) the fifth (5th) anniversary of the Separation Date and (y) the normal expiration date of each stock option to exercise the vested stock options granted to you under the Omnibus Plan, subject to the provisions of the Omnibus Plan, award agreement and this Separation Agreement; (ii) any unvested Restricted Stock Units ("RSUs") granted to you under the Omnibus Plan and as set forth on Exhibit A attached hereto shall vest immediately as of the Separation Date, and be settled as soon as practicable after the Corporation's receipt of the executed Release (but not later than March 15, 2021), subject to the provisions of the Omnibus Plan, award agreement and this Separation Agreement; and (iii) a pro-rata portion of any unvested Performance Stock Units ("PSUs") granted to you under the Omnibus Plan and as set forth on Exhibit A attached hereto, calculated in accordance with the provisions of the Omnibus Plan based on your service through the Separation Date, shall vest as of the Separation Date. Your PSUs will be paid at the same time as similar awards are paid to other employees under the Omnibus Plan. The stock options, RSUs and PSUs granted to you under the Omnibus Plan that do not vest as described above, if any, will be cancelled and forfeited without payment effective as of the Separation Date.

d. *Group Insurance Coverage.* Your medical, dental and/or vision coverage under the Domtar group insurance program will be maintained until the end of the month in which your separation from employment occurs. In addition,

you are entitled to elect continuation of your health coverage (medical, dental and/or vision) after your separation from employment in accordance with the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985 (“COBRA”), beginning on the first day of the month following the end of your coverage. If you timely elect to continue health coverage (medical, dental and/or vision) under the Domtar group insurance program pursuant to COBRA, the Corporation will reimburse you (within thirty (30) days after your payment of the applicable premium), for the eighteen (18)-month period beginning on the Separation Date, for the amount that the cost to you under COBRA exceeds what would have been the cost to you of medical, dental and/or vision coverage under the Domtar group insurance program had you remained employed. If you obtain equivalent or better coverage through a subsequent employer, your continued coverage under the Domtar group insurance program will terminate. Notwithstanding the foregoing, your coverage under the Short Term Disability (STD), Long Term Disability (LTD), Life and Accident Death & Personal Loss (ADPL) and Business Travel programs will terminate on the Separation Date.

e. *Outplacement Services.* You will be entitled to reasonable outplacement services through an external outplacement firm appointed by the Corporation until (i) December 31, 2022 or (ii) you obtain new employment, whichever occurs first.

f. *Pension and Defined Contribution Plans.* Your participation in the Corporation’s DB SERP for Management Committee Members of Domtar, DC SERP for Designated Executives of Domtar and the 401(k) Plan will terminate on the Separation Date. Payment of your benefits under such plans will be determined in accordance with the terms of the applicable plan, and is not subject to your execution, delivery and non-revocation of the Release.

g. *Financial Counseling.* You will be entitled to reimbursement for up to \$3,500 of financial counseling received through the Separation Date. Reimbursement payments will be made to you promptly following submission of receipts for services, provided that receipts are submitted within ninety (90) days, and are not subject to your execution, delivery and non-revocation of the Release. No reimbursement payment will be made later than December 31, 2021. You understand that this reimbursement may be a taxable benefit.

3. Return of Property. To the extent you have not already done so, no later than the Separation Date, you shall return to the Corporation all documents (and all copies thereof) and other property belonging to the Corporation that you have in your possession or control, including, without limitation, all files, correspondence, email, equipment (including, but not limited to, computers, smartphones, and servers), credit cards, entry cards, identification badges and keys, and any materials of any kind which contain or embody any proprietary or confidential information of the Corporation (and all

reproductions thereof in whole or in part).

4. Re-Affirmation of Restrictive Covenants. By signing and returning this Separation Agreement, in consideration of the payments and benefits provided under Section 2(a)-(e) of this Separation Agreement, you hereby acknowledge and agree that you will continue to be bound by, and adhere to, the restrictive covenants and related agreements set forth in Sections 12, 13, 14 and 15 of the Employment Agreement following the Separation Date in accordance with their terms, and such provisions in their entirety are incorporated into this Separation Agreement.

5. Non-Disparagement. You hereby agree that you will not make any statement, directly or indirectly, oral or written, which criticizes or is disparaging of or which is intended to or could reasonably be expected to damage the business or reputation of the Corporation, or any of its directors, officers, employees, agents or business. Notwithstanding anything in this Separation Agreement to the contrary, this Separation Agreement does not prohibit you from making any truthful statements regarding any unlawful employment practices or providing truthful testimony or accurate information in connection with any investigation being conducted into the business or operations of the Corporation by any government agency or other regulator, or otherwise providing information to the appropriate government regulatory agency or body regarding conduct by the Corporation that you reasonably believe is illegal or in material non-compliance with any regulatory requirement applicable to the Corporation.

6. Cooperation. You agree to cooperate with Domtar and each and every affiliate, parent and subsidiary thereof, as the case may be, and their attorneys, experts and consultants, after the Separation Date, as requested in connection with any litigation, grievance, investigation or any other proceeding arising out of, or relating to, matters in which you were involved prior to the Separation Date. Your cooperation shall include, without limitation, meeting with, sharing information, and providing assistance to the Corporation, and their attorneys, experts and consultants, and providing truthful testimony in pretrial and trial or hearing proceedings. In the event that your cooperation is requested after the Separation Date, the Corporation and their attorneys, experts and consultants will seek to minimize interruptions to your schedule to the extent consistent with its interests in the matter, and will reimburse you in connection with such cooperation upon reasonable substantiation of such expenses.

7. Defend Trade Secrets Act Notice. You are hereby notified in accordance with the Defend Trade Secrets Act of 2016 that you will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (i) is made (x) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (y) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. You are further notified that if you file a lawsuit for retaliation by an employer for reporting a suspected

violation of law, you may disclose the employer's trade secrets to your attorney and use the trade secret information in the court proceeding if you: (i) file any document containing the trade secret under seal and (ii) do not disclose the trade secret, except pursuant to court order.

8. Section 409A Compliance. This Separation Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") or an exemption thereunder, and shall be construed and administered in accordance with Section 409A. Notwithstanding any other provision of this Separation Agreement, payments provided under this Separation Agreement may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments under this Separation Agreement that may be excluded from Section 409A either as separation pay due to an involuntary separation from service or as a short-term deferral shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, any installment payments provided under this Separation Agreement shall each be treated as a separate payment. To the extent required under Section 409A, any payments to be made under this Separation Agreement upon a termination of employment shall only be made upon a "separation from service" under Section 409A. In addition, you recognize that you are a "specified employee" as defined in Section 409A. Accordingly, notwithstanding any other provision in this Separation Agreement, to the extent any amount payable under this Separation Agreement (i) constitutes the payment of nonqualified deferred compensation, within the meaning of Section 409A, (ii) is payable upon your separation from service and (iii) under the terms of this Separation Agreement, would be payable prior to the six (6)-month anniversary of your separation from service, such payment shall be delayed until the earlier to occur of (a) the six (6)-month anniversary of the separation from service or (b) the date of your death.

9. Governing Law. This Separation Agreement shall be governed by, interpreted under, and construed and enforced in accordance with the laws of the State of South Carolina without giving effect to the conflicts of law principles that would apply the law of any other jurisdiction.

10. Confidential. You hereby agree not to disclose the terms and conditions of this Separation Agreement and any communications regarding the negotiation of this Separation Agreement to any person or entity, other than your attorneys, accountants, financial advisors, members of your immediate family and state or federal taxing authorities, or if disclosure is required by law.

11. Miscellaneous. This Separation Agreement may be amended only by a written instrument signed by both parties. This Separation Agreement and the exhibits hereto (including the Release), together with Sections 12, 13, 14 and 15 of the Employment Agreement, constitute the entire agreement and understanding between the parties with respect to the subject matter hereof, and supersede and replace all prior

agreements and understandings (whether oral or written) between the parties with respect to such subject matter (except to the extent the provisions of the Employment Agreement survive by the terms of this Separation Agreement). This Separation Agreement (including the Release) shall be binding upon and inure to the benefit of the parties hereto and their respective successors, heirs, executors, administrators and assigns. In the event that any one or more of the provisions of this Separation Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality or enforceability of the remaining provisions of this Separation Agreement shall not be affected thereby and any said invalid, illegal or unenforceable provision shall be deemed not to be a part of this Separation Agreement. This Separation Agreement may be executed by electronic means and in counterparts (including via facsimile or .pdf file), each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

[signature page follows]

We urge you to review the terms of this Separation Agreement and the attached Release (which waives claims under the Age Discrimination in Employment Act), and discuss them with your family, an attorney of your choice or your financial or tax advisors before accepting the terms and making a decision. By signing, you acknowledge that you have been provided at least forty-five (45) days following receipt of this Separation Agreement and the attached Release in which to consider the terms of the Release. A Release must be signed and dated no earlier than the close of business on your Separation Date, and the signed Release must be returned to Josée Turgeon at 395 de Maisonneuve Blvd. West, Montreal, QC H3A 1L6 Canada, if you intend to accept the severance payments and benefits set forth in Section 2(a)-(e) of this Separation Agreement. If you change your mind after signing the Separation Agreement and Release, you have the right to revoke your decision within seven (7) days of signing the Release. Any revocation of the Release must be in writing and received by the Corporation by the close of business on the seventh (7th) day following your execution of the Release, and must be delivered by hand-delivery, express courier or certified mail, return receipt requested to: Josée Turgeon, Domtar Corporation, 395 de Maisonneuve Blvd. West, Montreal, QC H3A 1L6 Canada. You may also submit the signed version via email to Josée Turgeon at Josee.Turgeon@domtar.com. However, if you revoke your decision, you will not receive any of the severance payments and benefits set forth in Section 2(a)-(e) of this Separation Agreement.

I extend to you our best wishes for success in your future endeavors.

Yours truly,

Domtar Corporation (for itself and its subsidiaries and affiliates)

By: John D. Williams

Title: President and Chief Executive Officer

Date: _____

Agreed to and Accepted:

Michael D. Garcia

Date: _____

Exhibit A
Equity Awards

Grant Year	Grant Type	Unvested Equity Awards as of Separation Date¹	Unvested Equity Awards Eligible for Accelerated Vesting as of Separation Date	Unvested Equity Awards Forfeited as of Separation Date²
2018	Stock Option	4,461	4,461	–
	RSU	7,813	7,813	–
	PSU	14,086	16,727	–
2019	RSU	8,613	8,613	–
	PSU	12,098	6,602	5,496
2020	RSU	13,175	13,175	–
	PSU	19,349	6,532	12,817

¹ For unknown PSU performance periods, performance is assumed at target (100%). Final vesting will use actual performance.

² Estimated number of forfeited equity awards.

Exhibit B
Release

WHEREAS, Michael D. Garcia's ("Executive") employment with Domtar Corporation and its subsidiaries and affiliates (collectively, the "Corporation" or "Domtar") will terminate as of January 4, 2021 (the "Separation Date");

WHEREAS, Domtar has, pursuant to a letter agreement dated as of December 16, 2020, to which Executive and Domtar are parties (the "Separation Agreement"), agreed to provide Executive with certain post-employment benefits, as set forth in Section 2(a)-(e) of the Separation Agreement, to which Executive would not have otherwise been entitled (the "Severance Benefits"); and

WHEREAS, Executive acknowledges that Executive has been provided all monies owed through the date Executive signs this general release of claims (this "Release"), and that Domtar has satisfied all obligations to Executive arising out of or relating to Executive's employment with Domtar or separation from such employment through the date Executive signs this Release.

NOW, THEREFORE, in consideration of the promises made by the Executive in the Separation Agreement, and for other good and valuable consideration, the receipt of which is hereby acknowledged:

I, Executive, on behalf of himself, his family, heirs, executors, administrators and assigns (the "Releasor Parties") hereby fully and generally releases, discharges and covenants not to sue Domtar, its parents, predecessors, successors, assigns and each of the foregoing entities' respective officers, directors, employees, representatives (acting in their capacity as employees or representatives) and direct or indirect equity holders (the "Released Parties") with respect to any and all claims, demands, costs, rights, causes of action, complaints, losses, damages and all liability of whatever kind and nature, whether known or unknown, which Executive may have had at the time of signing this Release or had at any time prior thereto, including, but not limited to, any and all claims which may in any way arise out of or under, be connected with or relate to Executive's employment with Domtar, Executive's activities at Domtar, Executive's separation from employment with Domtar or the conduct of any of the foregoing Released Parties.

Without limiting the generality of the foregoing, the Releasor Parties expressly agree and acknowledge that this Release includes, but is not limited to, any claim before any court, government agency or in any other forum, (a) based on any federal, state or local statute, including without limitation any statute relating to employment, retirement or disability, age, sex, pregnancy, race, national origin, sexual orientation or other form of discrimination (including but not limited to, claims under Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. § 2000 *et seq.*; the Age Discrimination in Employment Act, as amended (including the Older Workers Benefit Protection Act (the "OWBPA")), 29 U.S.C. § 621 *et seq.* (the "ADEA"); the Worker Adjustment and Retraining Notification Act, as amended, 29 U.S.C. § 2101 *et seq.* ("WARN"), or equivalent state WARN act; the National Labor Relations Act, as amended, 29 U.S.C. § 141 *et seq.*; the Equal Pay Act of 1963, 29 U.S.C. § 201 *et seq.*; the Americans with Disabilities Act, 42 U.S.C. § 12101; the Rehabilitation Act of 1973, 29 U.S.C. § 701; the Civil Rights Acts of 1866 and 1871, as amended, 29 U.S.C. § 1981 *et seq.*; the Consolidated Omnibus Budget Reconciliation Act of 1985,

as amended; the Employee Retirement and Income Security Act, as amended, 29 U.S.C. § 1001 *et seq.*; the Family Medical Leave Act of 1993, as amended, 42 U.S.C. § 2601 *et seq.*; the South Carolina provisions regarding retaliation/discrimination for filing of a workers' compensation claim, S.C. Code Ann. § 41-1-80 *et seq.*, as amended; and the South Carolina Wage Payment and Work Hour Laws, as amended, including S.C. Code Ann. § 41-10-10 *et seq.*; (b) for wrongful discharge; (c) for fraud or fraud in the inducement; (d) for negligent misrepresentation; (e) relating to any implied or express promise or agreement (whether oral or written); (f) for intentional or negligent infliction of emotional distress or harm, defamation or any other tort; (g) for additional severance pay or benefits; (h) for breach of fiduciary duty; (i) for promissory estoppel or (j) all claims for violation of or failure to comply with any public policy (collectively, the "Released Claims"). Notwithstanding the foregoing, any Released Claims shall not include (i) any rights to receive the Severance Benefits under the Separation Agreement, or to earned and vested benefits under Domtar's benefit plans, (ii) any claim relating to directors' and officers' liability insurance coverage or any right of indemnification under Domtar's organizational documents or otherwise, (iii) Executive's rights as an equity or security holder in Domtar pursuant to such entity's organizational documents or (iv) any rights or claims that cannot be waived by law, including but not limited to the right to file a discrimination charge with an administrative agency or participate in any federal, state or local agency investigation. Executive does, however, agree to waive any right to recover money in connection with any such charge or investigations, or in connection with a charge filed by any other individual or agency. Nothing in this Section 1 shall prohibit Executive from making any disclosure to the U.S. Securities and Exchange Commission ("SEC") pursuant to Section 21F-17(b) of the Securities and Exchange Act of 1934, as amended, or receiving an award from the SEC in connection therewith.

2.If any claim is not subject to release, to the extent permitted by law, Executive waives any right or ability to be a class or collective action representative, or to otherwise participate in any putative or certified class, collective or multi-party action or proceeding based on such a claim in which Domtar or any other Released Party is a party.

3.Executive understands that the Severance Benefits represent, in part, consideration for signing this Release and are not salary, wages or benefits to which Executive was already entitled. Executive understands and agrees that Executive will not receive the Severance Benefits unless Executive executes this Release and does not revoke this Release within the time period permitted hereafter or breaches this Release or the Separation Agreement.

4.Executive hereby agrees, acknowledges and affirms each of the following: (a) that Executive has received all compensation, wages, and/or benefits to which Executive may be entitled through the date Executive signs this Release; (b) that following the Separation Date, Executive shall not be entitled to any further compensation, benefits or monies from Domtar, except for the Severance Benefits specifically provided for under the express terms of the Separation Agreement; (c) that Executive has been granted any leave to which Executive may have been entitled under the Family and Medical Leave Act or any similar state or local leave or disability accommodation law; (d) that Executive has no known workplace injuries or occupational diseases and (e) that Executive has not been retaliated against for reporting any allegations of fraud or other wrongdoing.

5.Domtar and Executive agree that neither this Release, nor the furnishing of the consideration for this Release, shall be deemed or construed at any time to be an admission by any Released Party or Executive of any improper or unlawful conduct.

6.Executive agrees that Executive will forfeit all amounts that are payable by Domtar pursuant to the Separation Agreement (other than accrued and vested benefits) if Executive challenges the validity of this Release. Executive also agrees that, if Executive violates this Release by suing Domtar or the other Released Parties with respect to any of the Released Claims, Executive will pay all costs and expenses of defending against the suit incurred by the Released Parties, including all reasonable attorneys' fees, and return all payments received by the Executive pursuant to the Separation Agreement.

7.Executive agrees that this Release is confidential and Executive will not disclose any information regarding the terms of this Release, except to Executive's immediate family and any tax, legal or other counsel Executive has consulted regarding the meaning or effect hereof or as required by law, and Executive will instruct each of the foregoing not to disclose the same to anyone.

8.Executive hereby agrees, acknowledges and affirms that as of the date hereof, Executive has returned to return to Domtar all documents (and all copies thereof) and other property belonging to Domtar that Executive has in his possession or control, including, without limitation, all files, correspondence, email, equipment (including, but not limited to, computers, smartphones, and servers), credit cards, entry cards, identification badges and keys, and any materials of any kind which contain or embody any proprietary or confidential information of Domtar (and all reproductions thereof in whole or in part).

9.Whenever possible, each provision of this Release shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Release is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or any other jurisdiction, but this Release shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

10.The following information is being provided to Executive in accordance with the ADEA and OWBPA because the Severance Benefits are being offered to Executive in connection with an employment termination program offered to a group of employees of Domtar. For business reasons related to unforeseeable business conditions caused by the COVID-19 pandemic and decreased paper demand, Domtar has decided to reduce Company Sales General and Administration ("SG&A") headcount and restructure as necessary (the "Reduction"). The decisional unit considered for separation in connection with the Reduction is all SG&A employees. Eligible employees were selected for separation from their employment in connection with the Reduction based on business considerations, including, but not limited to, business and market needs and reasons, internal and external customer needs, how to restructure to best service Domtar, financial costs, and individual skills and performance. Attached as Schedule I is an organized list of the job titles and ages of all eligible salaried employees who have been selected for separation as part of the Reduction. Attached as Schedule II is an organized list of the job titles and ages of

all eligible salaried employees who have not been selected for separation as part of the Reduction. The data contained in Schedule I and Schedule II was prepared as of December 14, 2020.

11. Executive hereby agrees and acknowledges each of the following:

- a) Executive has read this Release carefully and voluntarily consents to everything in this Release;
 - b) Executive has been encouraged by representatives of Domtar to have this Release reviewed by legal counsel of Executive's own choosing and Executive has been given ample time to do so prior to signing it;
 - c) Executive had the opportunity to negotiate concerning the terms of this Release;
 - d) Executive has been given the right to take up to forty-five (45) days to consider this Release, and to the extent Executive signs this Release prior to such forty-fifth (45th) day, Executive knowingly and voluntarily waives his right to consider the Release for the remainder of such period;
 - e) This Release specifically applies to any rights or claims Executive may have against Domtar or any other Released Party under the ADEA;
 - f) Notwithstanding anything in this Release to the contrary, this Release does not purport to waive rights or claims arising under ADEA that may arise from acts or events occurring after the date that this Release is signed by Executive; and
 - g) Executive has the right to revoke this Release within seven (7) days following the date it is executed by Executive. Any revocation of this Release must be in writing and received by Domtar by the close of business on the seventh (7th) day following Executive's execution of the Release, and must be delivered by hand-delivery, express courier or certified mail, return receipt requested to: Josée Turgeon, Domtar Corporation, 395 de Maisonneuve Blvd. West, Montreal, QC H3A 1L6 Canada. Executive may also submit the signed version via email to Josée Turgeon at Josee.Turgeon@domtar.com. In the event that Executive exercises his right to revoke this Release pursuant to this paragraph, any and all obligations of Domtar under the Agreement shall be null and void.
-

Agreed to and Accepted:

Employee

Michael D. Garcia

Date: _____

As of December 31, 2020

Domtar Corporation

Domtar Industries LLC

Domtar Funding Limited Liability Company

E.B. Eddy Paper, Inc.

Ariva Distribution Inc.

Domtar A.W. LLC

Domtar Wisconsin Dam Corp.

Domtar Europe Sprl

Domtar AI Inc.

PCG Holdings LLC

Attends Healthcare Products, Inc.

Domtar Personal Care Absorbent Hygiene Inc.

Associated Hygienic Products LLC

Home Delivery Incontinent Supplies Co.

Reassure, LLC

EAM Corporation

Palmetto Enterprises LLC

Domtar Paper Company, LLC

Domtar Delaware Holdings, LLC

West Carrollton Paper LLC

Domtar Delaware Holdings Inc.

Domtar Luxembourg Investments Sarl

Zither L Investments Sarl

Zither Personal Care DAC

Zither L Financial Sarl

Domtar Personal Care Europe, S.L.U.

Laboratorios Indas, S.A.U.

Indas Portugal-Produtos de Saude Sociedade Unipessoal, LDA

Indas S.A.R.L. A.U.

Indas EURL

Domtar Acquisition Sweden AB

Attends Healthcare Holdings AB

Attends AB

Attends Healthcare AB

Attends AS

Attends Healthcare Ltd

Attends Healthcare Finance Ltd

Attends Healthcare Investments Ltd

Attends Healthcare Group Ltd

Attends GmbH (Germany)

Attends BVBA

Attends Ltd

Attends OY

Attends BV

Attends GmbH (Switzerland)

Attends GmbH (Austria)

Attends Europe GmbH

Domtar Pacific Papers ULC

Domtar Pulp and Paper General Partnership (held 0.001% by DPP ULC and 99.999% by DInc)

Domtar Inc.

Domtar Asia Limited

Brompton Lands Limited

Domtar Hong Kong Limited (held 34% by DInc. and 66% by DPC, LLC)

As of December 31, 2020

AFFILIATED COMPANIES - (% held)

Celluforce Inc.	(44%)
Clergue Forest Management Inc.	- (24%)
Dryden Forest Management Company Ltd	(8.33% voting shares)
Forest Insurance Limited	- (17%)
Red Lake Forest Management Inc.	- (50% of class A shares)
Red Lake Independent Loggers Co. Ltd.	(33.3%)
Northshore Forest Inc.	(42%)
Ondaadiziwin Forest Management Inc.	(25%)
Prisma Renewable Composites, LLC	(55%)
Vermilion Forest Management Co.	(24.17 class A shares)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-233935) and Form S-8 (No. 333-181181 and No. 333-141213) of Domtar Corporation of our report dated March 1, 2021 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Charlotte, North Carolina
March 1, 2021

CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John D. Williams, certify that:

1. I have reviewed this annual report on Form 10-K of Domtar Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2021

/s/ John D. Williams

John D. Williams

President and Chief Executive Officer

CERTIFICATION BY THE CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Daniel Buron, certify that:

1. I have reviewed this annual report on Form 10-K of Domtar Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2021

/s/ Daniel Buron

Daniel Buron

Executive Vice-President and Chief Financial Officer

CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies that to his knowledge, the Company's Annual Report on Form 10-K for the period ended December 31, 2020 (the "Form 10-K") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 1, 2021

/s/ John D. Williams

John D. Williams

President and Chief Executive Officer

CERTIFICATION BY THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies that to his knowledge, the Company's Annual Report on Form 10-K for the period ended December 31, 2020 (the "Form 10-K") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 1, 2021

/s/ Daniel Buron

Daniel Buron

Executive Vice-President and Chief Financial Officer