



# 2021

**QUARTER FOUR**

INTERIM REPORT

FOR THE THREE MONTHS ENDED DEC. 31, 2021

**CANFOR PULP PRODUCTS INC.**

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## To Our Shareholders

Canfor Pulp Products Inc. ("The Company" or "CPPI" or "Canfor Pulp") reported its 2021 and fourth quarter of 2021 results<sup>1</sup>:

### Overview

- 2021 operating income before adjusting items of \$32 million; adjusted net income of \$25 million, or \$0.38 per share
- Fourth quarter of 2021 adjusted operating loss of \$41 million; adjusted net loss of \$32 million, or \$0.49 per share
- 2021 includes an impairment charge of \$95 million or \$1.06 per share, resulting in a reported operating loss of \$66 million for the year, net loss of \$44 million or \$0.68 per share; fourth quarter of 2021 reported operating loss of \$137 million, net loss of \$101 million or \$1.55 per share
- Available liquidity of \$170 million at December 31, 2021

### Financial Results

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

(millions of Canadian dollars, except per share amounts)	Q4 2021	Q3 2021	YTD 2021	Q4 2020	YTD 2020
Sales	\$ 249.3	\$ 298.9	\$ 1,144.9	\$ 237.8	\$ 990.5
Reported operating income (loss) before amortization and impairment	\$ (19.6)	\$ 37.8	\$ 116.8	\$ (6.2)	\$ 26.1
Reported operating income (loss)	\$ (137.2)	\$ 15.8	\$ (65.5)	\$ (28.3)	\$ (56.1)
Adjusted operating income (loss) before amortization and impairment <sup>1</sup>	\$ (18.5)	\$ 41.3	\$ 119.2	\$ (9.2)	\$ 17.6
Adjusted operating income (loss) <sup>1</sup>	\$ (41.1)	\$ 19.3	\$ 31.9	\$ (31.3)	\$ (64.6)
Net income (loss)	\$ (101.1)	\$ 12.1	\$ (44.4)	\$ (10.2)	\$ (22.4)
Net income (loss) per share, basic and diluted	\$ (1.55)	\$ 0.19	\$ (0.68)	\$ (0.16)	\$ (0.34)
Adjusted net income (loss) <sup>1</sup>	\$ (31.7)	\$ 12.1	\$ 25.0	\$ (10.2)	\$ (22.4)
Adjusted net income (loss) per share, basic and diluted <sup>1</sup>	\$ (0.49)	\$ 0.19	\$ 0.38	\$ (0.16)	\$ (0.34)

<sup>1</sup> Adjusted results referenced throughout this news release are defined as non-IFRS financial measures. For further details, refer to the "Non-IFRS Financial Measures" section of this document.

Following the many challenges driven by the onset of the coronavirus outbreak ("COVID-19") in 2020, Canfor Pulp experienced improved results in 2021, primarily reflecting the strengthening of global pulp market fundamentals in the first half of the year which more than offset the impacts from extreme weather conditions in British Columbia ("BC") on supply chain and operations, production downtime and global pulp market weakness in the latter part of the year. At the end of the 2021 year, recognizing increasing challenges to the business posed by fibre availability and costs, the Company recorded an asset impairment of \$95.0 million. Before taking account of adjusting items, the Company's operating income was \$31.9 million for the current year, with adjusted net income of \$0.38 per share, an improvement of \$96.5 million from the adjusted operating loss of \$64.6 million for the prior year, and adjusted net loss of \$0.34 per share. The Company reported an operating loss for 2021 of \$65.5 million, versus an operating loss of \$56.1 million for 2020.

For the fourth quarter of 2021, the Company reported an operating loss of \$137.2 million. After taking account of adjusting items, largely comprised of an asset impairment, the Company's operating loss for the fourth quarter of 2021 was \$41.1 million compared to an adjusted operating income of \$19.3 million for the previous quarter. The loss in the current period reflected weaker global pulp market conditions, combined with the significant impact of severe weather conditions on the Company's operations and shipments in the current quarter, most notably at its Northwood Northern Bleached Softwood Kraft ("NBSK") pulp mill ("Northwood") and its Taylor Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill ("Taylor"), as well as capital-related downtime at Northwood relating to the Company's decision to rebuild the lower furnace of recovery boiler number one ("RB1").

For the fourth quarter of 2021, the weaker pulp market conditions experienced towards the end of the previous quarter continued into the current period and, as a result, global softwood pulp producer inventory levels remained well above the balanced range (43 days of supply at December 2021, a decrease of two days from September 2021).

After declining in October and November, NBSK pulp prices to China, the world's largest pulp consumer, showed a modest recovery in December following unexpected global supply disruptions and ended the quarter at US\$760 per tonne. NBSK pulp list prices to China averaged US\$723 per tonne during the current quarter, as published by RISI, down US\$109 per tonne, or 13%, from the previous quarter. As a result, the Company's average NBSK pulp unit sales realizations experienced a corresponding decrease quarter-over-quarter. The downward trend in demand and US-dollar prices for BCTMP, particularly from the printing and writing segment, continued through the current quarter giving rise to a significant decline in the Company's BCTMP unit sales realizations quarter-over-quarter.

Pulp production was 190,000 tonnes for the fourth quarter of 2021, down 57,000 tonnes, or 23%, from the previous quarter, primarily reflecting the quarter-over-quarter impact of downtime. The current quarter was particularly challenging as unprecedented flooding and harsh winter conditions in BC significantly impacted the operational performance at all the Company's pulp mills and resulted in material transportation-related downtime at Northwood and Taylor. Production at Northwood was also impacted by the extended outage on one production line at Northwood from early December to enable the replacement of the lower furnace on RB1. Combined, these factors reduced current quarter NBSK pulp production by approximately 100,000 tonnes and BCTMP production by 20,000 tonnes.

In the third quarter of 2021, decreased operating days largely reflected scheduled maintenance outages at the Company's Prince George NBSK pulp mill ("PG") and Taylor, as well as incremental downtime at Northwood and Taylor reflecting both weather-related rail disruptions and, in the case of Northwood, digester-related operational upsets in July (combined, reducing pulp production by approximately 42,000 tonnes). In addition, the previous quarter's pulp production reflected various smaller operational upsets through the quarter (approximately 15,000 tonnes).

The Company's pulp shipments totaled 216,000 tonnes, down 25,000 tonnes, or 10%, from the previous quarter, principally due to the impact of weather-related transportation disruptions in BC and the associated decrease in production volumes, combined with the ongoing effects of a constrained global logistics network, offset in part by a drawdown of inventory in the current quarter during the aforementioned Northwood RB1 downtime.

Pulp unit manufacturing costs were significantly higher than the prior quarter principally reflecting reduced production in the current period, offset in part by decreased energy usage and lower maintenance spend.

Operating income in the Company's paper segment was \$1.7 million, up \$4.2 million from the operating loss of \$2.5 million in the previous quarter, as moderately higher paper unit sales realizations, tied to strengthening global paper demand and tight supply, was combined with lower slush costs, linked to lower Canadian dollar NBSK pulp market prices.

Like other central and northern BC Interior pulp producers, the Company's supply of sawmill residual chips has been significantly reduced over the last few years, primarily driven by extensive permanent sawmill curtailments in the region. As a result, the Company's fibre purchases have experienced ongoing cost pressures that include an increase in the proportion of higher-cost whole log chips and higher transportation costs.

Looking forward there remains significant uncertainty with regards to the future of economically viable fibre within BC. This uncertainty is driven by, among other factors, the lasting impacts of the Mountain Pine Beetle epidemic, wildfire events, future Timber Supply Review determinations by the BC Government, as well as uncertainties associated with unsettled land and title claims by various Indigenous Nations and outstanding policy, land use decisions and legislative initiatives by the BC Government. This includes the BC Government's announced deferral of harvesting on 2.6 million hectares of BC's old-growth forests and the potential redistribution of Crown tenure harvesting rights, including Indigenous Nations.

Consequently, the BC sawmill manufacturing industry faces a constrained fibre supply environment, where existing sawmill capacity outstrips the available timber supply in BC. Until this imbalance is corrected, the Company anticipates that escalating log cost pressures in BC will translate into a higher cost fibre supply for its pulp mills (both for sawmill residual chips and whole-log chips). In addition, it is expected that the long-term aggregate available chip supply will be permanently reduced.

Recognizing these increased fibre costs as well as ongoing uncertainty surrounding fibre availability, the Company performed an impairment test for its pulp segment as of December 31, 2021, which resulted in an impairment charge of \$95.0 million being recognized in the current year as a reduction to the carrying value of pulp segment assets.

In early 2022, global softwood kraft pulp market conditions have strengthened somewhat, largely in response to unexpected global supply outages and a heavily congested supply chain network, combined with an uptick in market demand from China. Notwithstanding high inventory levels and the potential for ongoing supply chain driven pricing volatility, global softwood kraft pulp markets are projected to continue to strengthen moderately through the first quarter of 2022, reflecting the ongoing improvement in demand from China coupled with tight global supply. Modest increases experienced in the high yield BCTMP market through the fourth quarter of 2021 are anticipated to continue through the first quarter of 2022.

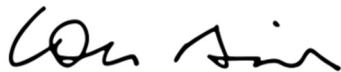
Despite the recent uplift in global pulp markets, the limited and intermittent rail service in BC experienced in recent weeks has put further pressure on an already constrained global logistics network. Consequently, as previously announced, the Company's results in the first quarter of 2022 will reflect a minimum six-week curtailment at Taylor, with a projected 25,000 tonnes of reduced BCTMP production. The Company also anticipates that the transportation disruptions will result in lower projected NBSK pulp and paper shipment volumes in the first quarter of 2022. The Company will continue to monitor and adapt to the unfolding logistic situation over the coming weeks. In addition, global inflationary cost increases, particularly for chemicals, are projected to weigh on the Company's results in the first quarter of 2022.

Furthermore, the Company's results in the first quarter of 2022 will reflect the impact of the RB1 capital-related outage at Northwood into late-March, including reduced pulp production (approximately 70,000 tonnes) and shipments, as well as higher pulp unit manufacturing costs. As the RB1 rebuild approaches completion a key focus of the Company's kraft pulp mills in 2022 will be on improving operational reliability and closely managing manufacturing and fibre costs.

No major maintenance outages are planned for the first quarter of 2022. In the second quarter of 2022, a maintenance outage is currently planned at Northwood and Taylor, with a projected 25,000 tonnes of reduced NBSK pulp production and an estimated 5,000 tonnes of reduced BCTMP production, respectively. In addition, a maintenance outage is scheduled at the Intercontinental NBSK pulp mill in the third quarter of 2022 with a projected 10,000 tonnes of reduced NBSK pulp production.

Bleached kraft paper markets are anticipated to continue to strengthen through the first quarter of 2022, as growing demand for paper products, largely driven by the environmental, social, and regulatory pressures to eliminate single-use plastics, is combined with tight supply and low inventories in the North American and Asian paper markets.

Refer to the Company's annual Management's Discussion and Analysis for further discussion on the Company's results for the fourth quarter of 2021 on page 19.



**The Honourable John R. Baird**  
Chairman



**Don B. Kayne**  
Chief Executive Officer

## Non-IFRS Financial Measures

Throughout this press release, reference is made to certain non-IFRS financial measures which are used to evaluate the Company's performance but are not generally accepted under IFRS and may not be directly comparable with similarly titled measures used by other companies. The following table provides a reconciliation of these non-IFRS financial measures to figures reported in the Company's consolidated financial statements:

(millions of Canadian dollars)	<b>Q4 2021</b>	<b>Q3 2021</b>	<b>YTD 2021</b>	<b>Q4 2020</b>	<b>YTD 2020</b>
Reported operating income (loss)	\$ (137.2)	\$ 15.8	\$ (65.5)	\$ (28.3)	\$ (56.1)
Asset impairment	\$ 95.0	\$ -	\$ 95.0	\$ -	\$ -
Inventory write-down (recovery), net	\$ 1.1	\$ 3.5	\$ 2.4	\$ (3.0)	\$ (8.5)
Adjusted operating income (loss)	\$ (41.1)	\$ 19.3	\$ 31.9	\$ (31.3)	\$ (64.6)
Amortization	\$ 22.6	\$ 22.0	\$ 87.3	\$ 22.1	\$ 82.2
Adjusted operating income (loss) before amortization and impairment	\$ (18.5)	\$ 41.3	\$ 119.2	\$ (9.2)	\$ 17.6
Net income (loss)	\$ (101.1)	\$ 12.1	\$ (44.4)	\$ (10.2)	\$ (22.4)
Asset impairment, net of tax	\$ 69.4	\$ -	\$ 69.4	\$ -	\$ -
Adjusted net income (loss)	\$ (31.7)	\$ 12.1	\$ 25.0	\$ (10.2)	\$ (22.4)


## Canfor Pulp Products Inc. Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)	<b>As at December 31, 2021</b>	As at December 31, 2020
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 73.3	\$ 6.8
Accounts receivable - Trade	66.7	64.3
- Other	9.5	13.6
Income taxes receivable	-	26.0
Inventories (Note 2)	211.8	188.5
Prepaid expenses and other	10.8	18.6
<b>Total current assets</b>	<b>372.1</b>	<b>317.8</b>
<b>Property, plant and equipment and intangible assets</b>		
<b>Right-of-use assets</b>	<b>2.1</b>	<b>2.0</b>
<b>Other long-term assets</b>	<b>2.7</b>	<b>6.5</b>
<b>Total assets</b>	<b>\$ 841.7</b>	<b>\$ 920.8</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 147.0	\$ 161.6
Income taxes payable	3.1	-
Current portion of lease obligations	0.8	1.0
<b>Total current liabilities</b>	<b>150.9</b>	<b>162.6</b>
<b>Term debt</b> (Note 3(b))	<b>50.0</b>	<b>50.0</b>
<b>Retirement benefit obligations</b>	<b>62.9</b>	<b>70.4</b>
<b>Lease obligations</b>	<b>2.1</b>	<b>1.5</b>
<b>Other long-term provisions</b>	<b>7.0</b>	<b>8.7</b>
<b>Deferred income taxes, net</b>	<b>73.8</b>	<b>95.1</b>
<b>Total liabilities</b>	<b>\$ 346.7</b>	<b>\$ 388.3</b>
<b>EQUITY</b>		
Share capital	\$ 480.8	\$ 480.8
Retained earnings	14.2	51.7
<b>Total equity</b>	<b>\$ 495.0</b>	<b>\$ 532.5</b>
<b>Total liabilities and equity</b>	<b>\$ 841.7</b>	<b>\$ 920.8</b>

### Contingencies (Note 9)

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

APPROVED BY THE BOARD



Director, S.E. Bracken-Horrocks



Director, The Hon. J.R. Baird

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

(millions of Canadian dollars, except per share data, unaudited)	3 months ended December 31,		12 months ended December 31,	
	<b>2021</b>	2020	<b>2021</b>	2020
<b>Sales</b>	<b>\$ 249.3</b>	\$ 237.8	<b>\$ 1,144.9</b>	\$ 990.5
<b>Costs and expenses</b>				
Manufacturing and product costs	<b>228.8</b>	204.6	<b>862.1</b>	804.5
Freight and other distribution costs	<b>32.5</b>	32.9	<b>137.7</b>	136.2
Amortization	<b>22.6</b>	22.1	<b>87.3</b>	82.2
Selling and administration costs	<b>7.6</b>	6.5	<b>28.3</b>	23.7
Asset impairment (Note 7)	<b>95.0</b>	-	<b>95.0</b>	-
	<b>386.5</b>	266.1	<b>1,210.4</b>	1,046.6
<b>Operating loss</b>	<b>(137.2)</b>	(28.3)	<b>(65.5)</b>	(56.1)
Finance expense, net	<b>(1.5)</b>	(1.2)	<b>(5.0)</b>	(5.2)
Other income, net (Note 8)	<b>0.1</b>	15.6	<b>9.5</b>	30.7
Net loss before income taxes	<b>(138.6)</b>	(13.9)	<b>(61.0)</b>	(30.6)
Income tax recovery	<b>37.5</b>	3.7	<b>16.6</b>	8.2
<b>Net loss</b>	<b>\$ (101.1)</b>	\$ (10.2)	<b>\$ (44.4)</b>	\$ (22.4)
<b>Net loss per common share:</b> (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 4)	<b>\$ (1.55)</b>	\$ (0.16)	<b>\$ (0.68)</b>	\$ (0.34)

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



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

(millions of Canadian dollars, unaudited)	3 months ended December 31,		12 months ended December 31,	
	<b>2021</b>	2020	<b>2021</b>	2020
<b>Net loss</b>	\$ (101.1)	\$ (10.2)	\$ (44.4)	\$ (22.4)
<b>Other comprehensive income</b>				
Items that will not be reclassified subsequently to net loss:				
Defined benefit plan actuarial gains, net	4.5	6.4	9.4	1.0
Income tax expense on defined benefit plan actuarial gains, net	(1.2)	(1.8)	(2.5)	(0.3)
Other comprehensive income, net of tax	3.3	4.6	6.9	0.7
<b>Total comprehensive loss</b>	\$ (97.8)	\$ (5.6)	\$ (37.5)	\$ (21.7)

**Condensed Consolidated Statements of Changes in Equity**

(millions of Canadian dollars, unaudited)	3 months ended December 31,		12 months ended December 31,	
	<b>2021</b>	2020	<b>2021</b>	2020
<b>Share capital</b>				
Balance at beginning and end of period	\$ 480.8	\$ 480.8	\$ 480.8	\$ 480.8
<b>Retained earnings</b>				
Balance at beginning of period	\$ 112.0	57.3	\$ 51.7	\$ 77.5
Net loss	(101.1)	(10.2)	(44.4)	(22.4)
Defined benefit plan actuarial gains, net of tax	3.3	4.6	6.9	0.7
Dividends declared	-	-	-	(4.1)
Balance at end of period	\$ 14.2	\$ 51.7	\$ 14.2	\$ 51.7
<b>Total equity</b>	\$ 495.0	\$ 532.5	\$ 495.0	\$ 532.5

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

**Canfor Pulp Products Inc.**  
**Condensed Consolidated Statements of Cash Flows**

(millions of Canadian dollars, unaudited)	3 months ended December 31,		12 months ended December 31,	
	<b>2021</b>	2020	<b>2021</b>	2020
<b>Cash generated from (used in):</b>				
<b>Operating activities</b>				
Net loss	\$ (101.1)	\$ (10.2)	\$ (44.4)	\$ (22.4)
Items not affecting cash:				
Amortization	22.6	22.1	87.3	82.2
Income tax recovery	(37.5)	(3.7)	(16.6)	(8.2)
Employee future benefits expense	1.0	1.2	3.6	4.0
Finance expense, net	1.5	1.2	5.0	5.2
Asset impairment (Note 7)	95.0	-	95.0	-
Other, net	-	(2.9)	0.4	(2.3)
Defined benefit plan contributions, net	(0.6)	(0.6)	(3.5)	(3.3)
Income taxes received (paid), net	3.3	(0.1)	26.0	29.0
	<b>(15.8)</b>	7.0	<b>152.8</b>	84.2
Net change in non-cash working capital (Note 5)	<b>50.6</b>	4.0	<b>(3.9)</b>	11.8
	<b>34.8</b>	11.0	<b>148.9</b>	96.0
<b>Financing activities</b>				
Payments of lease obligations	(0.2)	(0.3)	(1.1)	(0.9)
Operating loan repayment	-	-	-	(14.0)
Finance expenses paid	(1.1)	(0.6)	(3.2)	(3.4)
Dividends paid	-	-	-	(4.1)
	<b>(1.3)</b>	(0.9)	<b>(4.3)</b>	(22.4)
<b>Investing activities</b>				
Additions to property, plant and equipment and intangible assets, net	(16.0)	(34.2)	(78.7)	(73.3)
Other, net	0.1	0.1	0.6	0.5
	<b>(15.9)</b>	(34.1)	<b>(78.1)</b>	(72.8)
<b>Increase (decrease) in cash and cash equivalents*</b>	<b>17.6</b>	(24.0)	<b>66.5</b>	0.8
Cash and cash equivalents at beginning of period*	55.7	30.8	6.8	6.0
<b>Cash and cash equivalents at end of period*</b>	<b>\$ 73.3</b>	\$ 6.8	<b>\$ 73.3</b>	\$ 6.8

\*Cash and cash equivalents include cash on hand less unrepresented cheques.

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

## Canfor Pulp Products Inc. Notes to the Condensed Consolidated Financial Statements

Three and twelve months ended December 31, 2021 and 2020  
(millions of Canadian dollars unless otherwise noted, unaudited)

### 1. Basis of Preparation

These condensed consolidated financial statements (the “financial statements”) include the accounts of Canfor Pulp Products Inc. (“CPPI”) and its subsidiary entities, hereinafter referred to as “CPPI” or “the Company.” At December 31, 2021 and March 1, 2022, Canfor Corporation (“Canfor”) held a 54.8% interest in CPPI.

These financial statements do not include all of the disclosures required by International Financial Reporting Standards (“IFRS”) for interim or annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company’s Annual Report for the year ended December 31, 2021, available at [www.canfor.com](http://www.canfor.com) or [www.sedar.com](http://www.sedar.com).

These financial statements were authorized for issue by the Company’s Board of Directors on March 1, 2022.

#### **Change in Accounting Policy**

Effective January 1, 2021, the Company has adopted amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, and IFRS 16 *Leases, Interest Rate Benchmark Reform – Phase 2* (“Phase 2”) as issued in August 2020. Phase 2 of the amendments required financial instruments measured using amortized cost to be adjusted to reflect changes to the effective interest rate. For the Company, the adoption of Phase 2 is applicable to its non-revolving term debt and its committed operating loan facility, both of which have yet to transition to an alternative benchmark interest rate at December 31, 2021. As a result, there was no impact to the Company’s financial results upon adoption of Phase 2.

### 2. Inventories

(millions of Canadian dollars, unaudited)	<b>As at December 31, 2021</b>	As at December 31, 2020
Pulp	\$ 75.2	\$ 55.4
Paper	22.5	20.9
Wood chips and logs	55.6	57.2
Materials and supplies	58.5	55.0
	<b>\$ 211.8</b>	<b>\$ 188.5</b>

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended December 31, 2021, a \$1.1 million inventory write-down expense was recognized (twelve months ended December 31, 2021 – \$2.4 million net write-down expense). For the three months ended December 31, 2020, a \$3.0 million inventory write-down recovery was recognized (twelve months ended December 31, 2020 – \$8.5 million net write-down recovery). At December 31, 2021, an inventory provision of \$4.6 million has been recognized for finished pulp and raw materials (December 31, 2020 – provision of \$2.2 million).

### 3. Operating Loan and Term Debt

#### **(a) Available Operating Loan**

(millions of Canadian dollars, unaudited)	<b>As at December 31, 2021</b>	As at December 31, 2020
Operating loan facility	\$ 110.0	\$ 110.0
Letters of credit	(12.9)	(12.9)
Total available operating loan facility	<b>\$ 97.1</b>	<b>\$ 97.1</b>

On December 15, 2021, the Company extended the maturity date of its committed operating loan facility from April 6, 2023 to December 15, 2025.

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization, and is based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin.

The facility has certain financial covenants, including maximum debt to total capitalization ratios. As at December 31, 2021, the Company was fully in compliance with all covenants relating to its operating loan facility.

**(b) Term Debt**

On December 15, 2021, the Company extended the maturity date of its \$50.0 million non-revolving term debt from September 30, 2022 to December 15, 2024.

The Company's term debt is unsecured and is subject to certain financial covenants, including a maximum debt to total capitalization ratio. As at December 31, 2021, the Company was fully in compliance with all covenants relating to its term debt.

**4. Earnings (Loss) Per Common Share**

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

	3 months ended December 31,		12 months ended December 31,	
	2021	2020	2021	2020
Weighted average number of common shares	<b>65,233,559</b>	65,233,559	<b>65,233,559</b>	65,233,559

As at December 31, 2021 and March 1, 2022, there were 65,233,559 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8% (December 31, 2020 – 54.8%).

**5. Net Change in Non-Cash Working Capital**

(millions of Canadian dollars, unaudited)	3 months ended December 31,		12 months ended December 31,	
	2021	2020	2021	2020
Accounts receivable	\$ <b>37.2</b>	\$ (12.3)	\$ <b>1.6</b>	\$ 6.8
Inventories	<b>21.7</b>	10.6	<b>(23.3)</b>	5.2
Prepaid expenses and other	<b>4.2</b>	(3.2)	<b>8.9</b>	(1.4)
Accounts payable and accrued liabilities	<b>(12.5)</b>	8.9	<b>8.9</b>	1.2
Net change in non-cash working capital	\$ <b>50.6</b>	\$ 4.0	\$ <b>(3.9)</b>	\$ 11.8

**6. Segment Information**

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

(millions of Canadian dollars, unaudited)	Pulp	Paper	Unallocated	Elimination Adjustment	Consolidated
<b>3 months ended December 31, 2021</b>					
<b>Sales from contracts with customers</b>	\$ <b>212.4</b>	\$ <b>36.9</b>	\$ -	\$ -	\$ <b>249.3</b>
<b>Sales to other segments</b>	<b>24.7</b>	-	-	<b>(24.7)</b>	-
<b>Operating income (loss)</b>	<b>(135.2)</b>	<b>1.7</b>	<b>(3.7)</b>	-	<b>(137.2)</b>
<b>Amortization</b>	<b>22.1</b>	<b>0.5</b>	-	-	<b>22.6</b>
<b>Capital expenditures<sup>1</sup></b>	<b>15.3</b>	-	<b>0.7</b>	-	<b>16.0</b>
3 months ended December 31, 2020					
Sales from contracts with customers	\$ 197.1	\$ 40.7	\$ -	\$ -	\$ 237.8
Sales to other segments	21.8	-	-	(21.8)	-
Operating income (loss)	(30.2)	4.8	(2.9)	-	(28.3)
Amortization	21.3	0.8	-	-	22.1
Capital expenditures <sup>1</sup>	34.0	0.1	0.1	-	34.2

(millions of Canadian dollars, unaudited)	Pulp	Paper	Unallocated	Elimination Adjustment	Consolidated
<b>12 months ended December 31, 2021</b>					
<b>Sales from contracts with customers</b>	\$ 984.7	\$ 160.2	\$ -	\$ -	\$ 1,144.9
<b>Sales to other segments</b>	102.2	-	-	(102.2)	-
<b>Operating income (loss)</b>	(55.8)	4.3	(14.0)	-	(65.5)
<b>Amortization</b>	84.7	2.5	0.1	-	87.3
<b>Capital expenditures<sup>1</sup></b>	76.3	0.4	2.0	-	78.7
<b>Identifiable assets</b>	696.9	56.1	88.7	-	841.7
12 months ended December 31, 2020					
Sales from contracts with customers	\$ 827.9	\$ 162.6	\$ -	\$ -	\$ 990.5
Sales to other segments	74.4	-	-	(74.4)	-
Operating income (loss)	(70.4)	24.0	(9.7)	-	(56.1)
Amortization	79.2	2.9	0.1	-	82.2
Capital expenditures <sup>1</sup>	71.3	1.4	0.6	-	73.3
Identifiable assets	814.7	63.8	42.3	-	920.8

<sup>1</sup>Capital expenditures represent cash paid for capital assets during the periods and include capital expenditures that were partially financed by government grants.

## Geographic information

CPPI's products are marketed worldwide, with sales made to customers in a number of different countries. In presenting information on the basis of geographical location, sales are based on the geographical location of customers.

(millions of Canadian dollars, unaudited)	3 months ended December 31,		12 months ended December 31,	
	2021	2020	2021	2020
Sales by location of customer				
Canada	7% \$ 17.4	8% \$ 17.8	6% \$ 73.4	8% \$ 79.0
Asia	62% 154.0	63% 150.3	67% 762.5	60% 596.4
United States	23% 57.7	22% 53.4	20% 230.0	25% 246.0
Europe	5% 12.5	4% 8.7	4% 48.6	4% 37.6
Other	3% 7.7	3% 7.6	3% 30.4	3% 31.5
	<b>100% \$ 249.3</b>	<b>100% \$ 237.8</b>	<b>100% \$ 1,144.9</b>	<b>100% \$ 990.5</b>

In 2021, one customer in the pulp segment accounted for 16% of the Company's total sales (December 31, 2020 – 13%).

## 7. Asset Impairment

As a result of increased fibre cost pressures and ongoing uncertainty surrounding fibre availability for CPPI's pulp mills, the Company performed an impairment test as of December 31, 2021 on the property, plant and equipment of the pulp and paper cash-generating unit ("CGU").

The recoverable amount of the Company's property, plant and equipment within the pulp and paper CGU was determined based on an assessment of value in use, estimated using a discounted cash flow model. This discounted cash flow model was projected based on past experience and actual operating results as well as Management's assessment of future trends in the pulp and paper industry, based on both external and internal sources of data. Significant assumptions include future production volume, commodity prices, fibre and production costs, as well as the discount rate. Other assumptions include applicable foreign exchange rates, operating rates of the assets, and the future capital required to maintain the assets in their current operating condition. Estimated future cash flows were discounted at a rate of 8% (11% before tax), based on CPPI's weighted average cost of capital for 2021.

This assessment resulted in an impairment charge of \$95.0 million being recognized for the three and twelve months ended December 31, 2021, as a reduction to the carrying value of pulp segment assets.

## 8. Other Income, Net

During the twelve months ended December 31, 2021, the Company received insurance proceeds of \$8.8 million (twelve months ended December 31, 2020 – \$32.8 million) related to Northwood pulp mill's number five recovery boiler ("RB5")

outage in 2018, included as a component of 'Other income, net' on the condensed consolidated statement of income (loss). During the three months ended December 31, 2021, no insurance proceeds were received (three months ended December 31, 2020 – \$17.7 million).

## **9. Contingencies**

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