



# 2023

**QUARTER TWO**

INTERIM REPORT

FOR THE THREE MONTHS ENDED JUNE 30, 2023

**CANFOR PULP PRODUCTS INC.**

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## To Our Shareholders

Canfor Pulp Products Inc. ("The Company" or "CPPI") reported its second quarter of 2023 results<sup>1</sup>:

### Overview

- Q2 2023 reported operating loss of \$38 million; net loss of \$28 million, or \$0.44 per share
- Significant deterioration in global pulp market fundamentals throughout the quarter driven by record high pulp producer inventory levels and weak global pulp demand
- Completed closure of pulp line at Prince George Pulp and Paper mill
- Subsequent to quarter-end, a labour dispute at British Columbian ports resulted in transportation bottlenecks and a short curtailment at the Company's Northwood NBSK pulp mill

### Financial Results

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

(millions of Canadian dollars, except per share amounts)	<b>Q2 2023</b>	<b>Q1 2023</b>	<b>YTD 2023</b>	<b>Q2 2022</b>	<b>YTD 2022</b>
Sales	\$ 249.5	\$ 243.3	\$ 492.8	\$ 288.9	\$ 509.2
Reported operating income (loss) before amortization	\$ (15.3)	\$ (0.6)	\$ (15.9)	\$ 15.7	\$ 9.8
Reported operating loss	\$ (37.9)	\$ (25.2)	\$ (63.1)	\$ (8.1)	\$ (34.1)
Adjusted operating income (loss) before amortization	\$ (8.4)	\$ 3.0	\$ (5.4)	\$ 16.2	\$ 9.2
Adjusted operating loss <sup>1</sup>	\$ (31.0)	\$ (21.6)	\$ (52.6)	\$ (7.6)	\$ (34.7)
Net loss	\$ (28.4)	\$ (18.8)	\$ (47.2)	\$ (5.7)	\$ (25.6)
Net loss per share, basic and diluted	\$ (0.44)	\$ (0.29)	\$ (0.72)	\$ (0.09)	\$ (0.39)

<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.

The Company reported an operating loss of \$37.9 million for the second quarter of 2023, compared to an operating loss of \$25.2 million for the first quarter of 2023. After taking into consideration a net \$6.9 million inventory write-down in the current period, the Company's adjusted operating loss was \$31.0 million for the second quarter of 2023, compared to an adjusted operating loss of \$21.6 million for the first quarter of 2023. These results, for the most part, reflect the impact of substantial global pulp pricing declines in the current quarter driven by elevated global market pulp producer inventory levels and weak global softwood pulp demand.

In January 2023, the Company announced the decision to restructure its operating footprint to align its manufacturing capacity with the long-term supply of economic residual fibre and, as a result, in April 2023, the Company wound down and permanently closed the pulp line at its Prince George ("PG") Northern Bleached Softwood Kraft ("NBSK") Pulp and Paper mill. In connection with this closure, the Company's Intercontinental NBSK pulp mill ("Intercon") was successfully converted to provide slush pulp to its specialty paper facility. The combined impact of these operating structure changes is a reduction of approximately 280,000 tonnes of market kraft pulp production annually.

Global softwood pulp market fundamentals and pricing experienced considerable pressure during the second quarter of 2023 as tepid global demand was combined with rising global softwood pulp producer inventory levels. As a result, NBSK US-dollar list prices to China dropped sharply throughout the quarter to end June at a low of US\$648 per tonne. For the current quarter overall, US-dollar NBSK pulp list prices to China averaged US\$668 per tonne, down US\$223 per tonne, or 25%, from the previous quarter. Prices to other global regions experienced less pronounced declines in the current period, with the average US-dollar NBSK pulp list price to North America at US\$1,510 per tonne (before discounts), down US\$165 per tonne, or 10%, from the prior quarter. Global softwood pulp producer inventories climbed substantially throughout the current quarter and, at the end of May 2023 were significantly above the balanced range at 54 days of supply, an increase of five days from March 2023. (Market conditions are generally considered balanced when inventories are within a normal range of 32-43 days of supply).

Pulp production was down 17% from the previous quarter, mainly due to the aforementioned operating platform changes, and, to a lesser extent, operational challenges at the Company's Northwood NBSK pulp mill ("Northwood") in the current period.

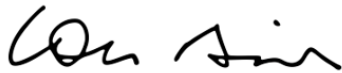
Operating income in the Company's paper segment was \$0.7 million, down \$2.6 million from the previous quarter, as a reduction in slush pulp costs, linked to lower Canadian dollar NBSK pulp market prices, was more than outweighed by a decrease in paper production and shipments as a result of a scheduled maintenance outage completed in the current period, as well as higher energy costs quarter-over-quarter.

Looking forward, global softwood kraft pulp markets are anticipated to remain challenging through the third quarter of 2023, as record high global pulp producer inventory levels are projected to continue to be met with weak global pulp demand, particularly for paper and writing grades. In addition, the traditionally slower summer months are anticipated to further soften global pulp demand, particularly in the short-term. The Company will continue to monitor the challenging market conditions and will adjust operating rates, if appropriate, through the balance of 2023.

The labour dispute at the Ports of Vancouver and Prince Rupert that commenced on July 1, 2023, put pressure on a constrained logistics network in British Columbia. As a direct result, with pulp mill inventories at capacity, the Company curtailed its Northwood pulp mill in July for approximately one week, with an estimated 10,000 tonnes of reduced NBSK pulp production.

Results in the third quarter of 2023 are also forecast to reflect a scheduled maintenance outage at Northwood in September, with a projected 25,000 tonnes of reduced NBSK pulp production, as well as higher associated maintenance costs and lower projected shipment volume. As part of this outage, the Company will complete an inspection of its assets at this facility, including the two recovery boilers, with the intention of formulating a re-investment plan for Northwood's recovery boiler number one ("RB1"), as well as the facility as a whole, that is focused on optimizing this mill for the long-term.

Bleached kraft paper markets are anticipated to weaken through the third quarter of 2023, particularly in the North American markets, as tepid demand is combined with above-average paper inventory levels.



**The Honourable John R. Baird**  
Chairman



**Kevin A. Edgson**  
President and Chief Executive Officer

### Non-IFRS Financial Measures

Throughout this news 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 condensed consolidated interim financial statements:

(millions of Canadian dollars)	Q2 2023	Q1 2023	YTD 2023	Q2 2022	YTD 2022
Reported operating loss	\$ (37.9)	\$ (25.2)	\$ (63.1)	\$ (8.1)	\$ (34.1)
Inventory write-down (recovery), net	\$ 6.9	\$ 3.6	\$ 10.5	\$ 0.5	\$ (0.6)
Adjusted operating loss	\$ (31.0)	\$ (21.6)	\$ (52.6)	\$ (7.6)	\$ (34.7)
Amortization	\$ 22.6	\$ 24.6	\$ 47.2	\$ 23.8	\$ 43.9
Adjusted operating income (loss) before amortization	\$ (8.4)	\$ 3.0	\$ (5.4)	\$ 16.2	\$ 9.2

### Forward Looking Statements

Certain statements in this press release constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on Management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and Canfor assumes no obligation to update such information to reflect later events or developments, except as required by law.

## **Canfor Pulp Products Inc. Second Quarter 2023 Management's Discussion and Analysis**

*This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the quarter ended June 30, 2023 relative to the quarters ended March 31, 2023 and June 30, 2022, and the financial position of the Company at June 30, 2023. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended, June 30, 2023 and 2022, as well as the 2022 annual MD&A and the 2022 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2022 (available at [www.canfor.com](http://www.canfor.com)). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.*

*Throughout this discussion, reference is made to Operating Income (Loss) before Amortization, Asset Write-Down and Impairment, Adjusted Operating Income (Loss) before Amortization, Asset Write-Down and Impairment, and Adjusted Operating Income (Loss) which CPPI considers to be a relevant indicator for measuring trends in the Company's performance and its ability to generate funds to meet its debt service and capital expenditure requirements, and to pay dividends. Reference is also made to Adjusted Net Income (Loss) (calculated as Net Income (Loss) less specific items affecting comparability with prior periods) – for the full calculation, see reconciliation included in the section "Second Quarter 2023 Overview") and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization, Asset Write-Down and Impairment, Adjusted Operating Income (Loss) before Amortization, Asset Write-Down and Impairment, Adjusted Operating Income (Loss) and Adjusted Net Income (Loss) per Share are not generally accepted earnings measures under IFRS and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, CPPI's Operating Income (Loss) before Amortization, Asset Write-Down and Impairment, Adjusted Operating Income (Loss) before Amortization, Asset Write-Down and Impairment, Adjusted Operating Income (Loss), Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income (Loss) before Amortization, Asset Write-Down and Impairment to Operating Income (Loss) and Adjusted Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in the "Non-IFRS Financial Measures" section of this MD&A. Throughout this discussion, reference is made to the current quarter which refers to the results for the second quarter of 2023.*

*Also in this MD&A, reference is made to net debt, net debt to total capitalization and return on invested capital ("ROIC") which the Company considers to be relevant performance indicators that are not generally accepted under IFRS. Therefore, these indicators, defined herein, may not be directly comparable with similarly titled measures used by other companies. Refer to the "Non-IFRS Financial Measures" section of this MD&A for further details.*

*Factors that could impact future operations are also discussed. These factors may be influenced by both known and unknown risks and uncertainties that could cause the actual results to be materially different from those stated in this discussion. Factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions; product selling prices; raw material and operating costs; currency exchange rates; interest rates; changes in law and public policy; the outcome of labour and trade disputes; and opportunities available to or pursued by CPPI.*

*All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at July 27, 2023.*

### **Forward Looking Statements**

*Certain statements in this press release constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on Management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.*

## SECOND QUARTER 2023

### Overview

(millions of Canadian dollars)	Q2 2023	Q1 2023	YTD 2023	Q2 2022	YTD 2022
Reported operating loss	\$ (37.9)	\$ (25.2)	\$ (63.1)	\$ (8.1)	\$ (34.1)
Inventory write-down (recovery), net	\$ 6.9	\$ 3.6	\$ 10.5	\$ 0.5	\$ (0.6)
Adjusted operating loss	\$ (31.0)	\$ (21.6)	\$ (52.6)	\$ (7.6)	\$ (34.7)
Amortization	\$ 22.6	\$ 24.6	\$ 47.2	\$ 23.8	\$ 43.9
Adjusted operating income (loss) before amortization	\$ (8.4)	\$ 3.0	\$ (5.4)	\$ 16.2	\$ 9.2

### Selected Financial Information and Statistics

(millions of Canadian dollars, except ratios)	Q2 2023	Q1 2023	YTD 2023	Q2 2022	YTD 2022
Operating income (loss) by segment:					
Pulp	\$ (36.0)	\$ (24.4)	\$ (60.4)	\$ (11.1)	\$ (40.4)
Paper	\$ 0.7	\$ 3.3	\$ 4.0	\$ 6.2	\$ 12.2
Unallocated	\$ (2.6)	\$ (4.1)	\$ (6.7)	\$ (3.2)	\$ (5.9)
<b>Total operating loss</b>	<b>\$ (37.9)</b>	<b>\$ (25.2)</b>	<b>\$ (63.1)</b>	<b>\$ (8.1)</b>	<b>\$ (34.1)</b>
Add: Amortization <sup>1</sup>	\$ 22.6	\$ 24.6	\$ 47.2	\$ 23.8	\$ 43.9
<b>Total operating income (loss) before amortization</b>	<b>\$ (15.3)</b>	<b>\$ (0.6)</b>	<b>\$ (15.9)</b>	<b>\$ 15.7</b>	<b>\$ 9.8</b>
Add (deduct):					
Working capital movements	\$ 41.5	\$ 0.2	\$ 41.7	\$ 16.3	\$ (15.3)
Defined benefit pension plan contributions, net	\$ (3.3)	\$ (0.9)	\$ (4.2)	\$ (0.7)	\$ (1.7)
Income taxes (paid) received, net	\$ 0.1	\$ (0.8)	\$ (0.7)	\$ (1.0)	\$ (3.2)
Other operating cash flows, net	\$ 4.2	\$ 6.4	\$ 10.6	\$ 3.6	\$ 4.3
<b>Cash from operating activities</b>	<b>\$ 27.2</b>	<b>\$ 4.3</b>	<b>\$ 31.5</b>	<b>\$ 33.9</b>	<b>\$ (6.1)</b>
Deduct:					
Capital additions, net	\$ (10.3)	\$ (12.0)	\$ (22.3)	\$ (37.7)	\$ (56.1)
Repayment of term debt	\$ (50.0)	\$ -	\$ (50.0)	\$ -	\$ -
Other, net	\$ (3.3)	\$ (2.0)	\$ (5.3)	\$ (1.3)	\$ (2.0)
<b>Change in cash / operating loans</b>	<b>\$ (36.4)</b>	<b>\$ (9.7)</b>	<b>\$ (46.1)</b>	<b>\$ (5.1)</b>	<b>\$ (64.2)</b>
ROIC – Consolidated period-to-date <sup>2</sup>	(6.2)%	(4.0)%	(10.1)%	(1.2)%	(5.3)%
<b>Average exchange rate (US\$ per C\$1.00)<sup>3</sup></b>	<b>\$ 0.745</b>	<b>\$ 0.740</b>	<b>\$ 0.742</b>	<b>\$ 0.783</b>	<b>\$ 0.787</b>

<sup>1</sup> Amortization includes amortization of certain capitalized major maintenance costs.

<sup>2</sup> Consolidated ROIC is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

<sup>3</sup> Source – Bank of Canada (monthly average rate for the period).

The Company reported an operating loss of \$37.9 million for the second quarter of 2023, compared to an operating loss of \$25.2 million for the first quarter of 2023. After taking into consideration a net \$6.9 million inventory write-down in the current period, the Company's adjusted operating loss was \$31.0 million for the second quarter of 2023, compared to an adjusted operating loss of \$21.6 million for the first quarter of 2023. These results, for the most part, reflect the impact of substantial global pulp pricing declines in the current quarter driven by elevated global market pulp producer inventory levels and weak global softwood pulp demand.

In January 2023, the Company announced the decision to restructure its operating footprint to align its manufacturing capacity with the long-term supply of economic residual fibre and, as a result, in April 2023, the Company wound down and permanently closed the pulp line at its Prince George ("PG") Northern Bleached Softwood Kraft ("NBSK") Pulp and Paper mill. In connection with this closure, the Company's Intercontinental NBSK pulp mill ("Intercon") was successfully converted to provide slush pulp to its specialty paper facility. The combined impact of

these operating structure changes is a reduction of approximately 280,000 tonnes of market kraft pulp production annually.

Compared to the second quarter of 2022, adjusted operating results declined \$23.4 million, primarily reflecting significantly lower US-dollar NBSK pulp list prices, and, to a lesser extent, reduced production and shipment volumes in the current quarter, partially offset by a 4 cent, or 5%, weaker Canadian dollar.

## OPERATING RESULTS BY BUSINESS SEGMENT

### Pulp

#### Selected Financial Information and Statistics – Pulp

	Q2	Q1	YTD	Q2	YTD
(millions of Canadian dollars, unless otherwise noted)	2023	2023	2023	2022	2022
Sales	\$ 197.6	\$ 187.4	\$ 385.0	\$ 236.7	\$ 413.2
Operating income (loss) before amortization <sup>5</sup>	\$ (14.1)	\$ (0.2)	\$ (14.3)	\$ 12.2	\$ 2.5
Operating loss	\$ (36.0)	\$ (24.4)	\$ (60.4)	\$ (11.1)	\$ (40.4)
Inventory write-downs (recovery)	\$ 6.9	\$ 3.6	\$ 10.5	\$ 0.5	\$ (0.6)
Adjusted operating loss <sup>6</sup>	\$ (29.1)	\$ (20.8)	\$ (49.9)	\$ (10.6)	\$ (41.0)
Average NBSK pulp price delivered to China – US\$ <sup>7</sup>	\$ 668	\$ 891	\$ 780	\$ 1,008	\$ 954
Average NBSK pulp price delivered to China – Cdn\$ <sup>7</sup>	\$ 897	\$ 1,204	\$ 1,051	\$ 1,287	\$ 1,213
Production – pulp (000 mt)	151	181	332	187	363
Shipments – pulp (000 mt)	179	152	331	205	381

<sup>5</sup> Amortization includes amortization of certain capitalized major maintenance costs.

<sup>6</sup> Adjusted operating loss is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

<sup>7</sup> Per tonne, NBSK pulp list net price delivered to China (as published by Resource Information Systems, Inc. ("RISI")); Average NBSK pulp list net price delivered to China in Cdn\$ calculated as average NBSK pulp list net price delivered to China – US\$ multiplied by the average exchange rate – Cdn\$ per US\$1.00 according to Bank of Canada monthly average rate for the period.

### Markets

Global softwood pulp market fundamentals and pricing experienced considerable pressure during the second quarter of 2023 as tepid global demand was combined with rising global softwood pulp producer inventory levels. As a result, NBSK US-dollar list prices to China dropped sharply throughout the quarter to end June at a low of US\$648 per tonne. For the current quarter overall, US-dollar NBSK pulp list prices to China averaged US\$668 per tonne, down US\$223 per tonne, or 25%, from the previous quarter and down US\$340 per tonne, or 34%, from the second quarter of 2022. Prices to other global regions experienced less pronounced declines in the current period, with the average US-dollar NBSK pulp list price to North America at US\$1,510 per tonne (before discounts), down US\$165 per tonne, or 10%, from the prior quarter. Compared to the same period in the prior year, pulp list prices to North America were down US\$233 per tonne, or 13%.

Global softwood pulp producer inventories climbed substantially throughout the current quarter and, at the end of May 2023 were significantly above the balanced range at 54 days<sup>8</sup> of supply, an increase of five days from March 2023. (Market conditions are generally considered balanced when inventories are within a normal range of 32-43 days of supply).

### Sales

The Company's pulp shipments for the second quarter of 2023 totaled 179,000 tonnes, up 27,000 tonnes, or 18%, from the previous quarter, and down 26,000 tonnes, or 13%, from the second quarter of 2022. Pulp shipments in the current quarter largely reflected a drawdown of inventory levels following the closure of the pulp line at PG in early April. Compared to the second quarter of 2022, the decrease in pulp shipments primarily reflected the 19% reduction in pulp production, offset in part by the timing of vessels quarter-over-quarter.

<sup>8</sup> World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council ("PPPC").



The Company's average NBSK pulp unit sales realizations experienced a significant decrease compared to the previous quarter, principally driven by the deterioration in global pulp market conditions through the current quarter, and the associated 25% decline in US-dollar NBSK pulp list pricing to China, mitigated to a degree, by a favourable timing lag in shipments (versus orders). Compared to the second quarter of 2022, the Company's average NBSK pulp unit sales realizations saw a moderate decline, as the aforementioned downward pressure on global US-dollar pulp list pricing was offset somewhat by a 4 cent, or 5%, weaker Canadian dollar.

Energy revenues increased in the current quarter compared to both comparative periods, largely reflecting an uplift in turbine operating days quarter-over-quarter driven by more stabilized pulp production.

### Operations

Pulp production was 151,000 tonnes for the second quarter of 2023, down 30,000 tonnes, or 17%, from the first quarter of 2023, and down 36,000 tonnes, or 19%, compared to the same period in the prior year, mainly due to the aforementioned operating platform changes, and, to a lesser extent, operational challenges at the Company's Northwood NBSK pulp mill ("Northwood") in the current period.

In the first quarter of 2023, the Company's Intercon pulp mill started the year curtailed as a result of ongoing fibre shortages, which reduced NBSK pulp production by approximately 35,000 tonnes. While challenges with operational reliability persisted throughout the quarter, and impacted NBSK pulp production by approximately 30,000 tonnes, the operating performance at Intercon and Northwood improved as the first quarter progressed.

In the comparative 2022 period, pulp production was principally impacted by the completion in mid-April of the Northwood recovery boiler number one ("RB1") capital upgrade (approximately 10,000 tonnes), as well as a scheduled maintenance outage at Northwood which commenced in June and was completed mid-July (approximately 30,000 tonnes in the second quarter of 2022 and a further 16,000 tonnes in July 2022).

Pulp unit manufacturing costs were moderately lower in the current quarter compared to the first quarter of 2023, principally reflecting seasonally lower energy usage combined with reduced chemical costs in the current period. Fibre costs showed a modest decline, as lower market-based prices for sawmill residual chips (linked to lower Canadian dollar NBSK pulp sales realizations) were combined with a reduction in the proportion of higher-cost whole log chips quarter-over-quarter. Compared to the second quarter of 2022, pulp unit manufacturing costs were modestly lower, as increased fibre costs tied to a larger proportion of higher-cost whole log chips, were more than offset by reduced energy costs in the current period.

### **Paper**

#### **Selected Financial Information and Statistics – Paper**

(millions of Canadian dollars, unless otherwise noted)	<b>Q2 2023</b>	<b>Q1 2023</b>	<b>YTD 2023</b>	<b>Q2 2022</b>	<b>YTD 2022</b>
Sales	\$ 51.9	\$ 55.9	\$ 107.8	\$ 52.2	\$ 96.0
Operating income before amortization <sup>9</sup>	\$ 1.4	\$ 3.7	\$ 5.1	\$ 6.7	\$ 13.2
Operating income	\$ 0.7	\$ 3.3	\$ 4.0	\$ 6.2	\$ 12.2
Production – paper (000 mt)	30	34	64	33	67
Shipments – paper (000 mt)	32	35	67	34	65

<sup>9</sup> Amortization includes amortization of certain capitalized major maintenance costs.

### Markets

Global kraft paper market demand remained solid early in the second quarter of 2023. As the quarter progressed, however, inflationary pressures and rising global kraft paper inventory levels led to a softening in global kraft paper markets later in the current period.

### Sales

The Company's paper shipments in the second quarter of 2023 were 32,000 tonnes, down 3,000 tonnes from the previous quarter, and down 2,000 tonnes from the second quarter of 2022, largely reflecting the timing of shipments around quarter-end compared to both comparative periods, offset in part by reduced paper production in the current period, tied to the planned scheduled downtime.

Paper unit sales realizations in the second quarter of 2023 were broadly in line with the previous quarter, as a slight uplift in global US-dollar paper pricing was offset by the 1% stronger Canadian dollar quarter-over-quarter.

Compared to the second quarter of 2022, paper unit sales realizations experienced a moderate increase, primarily driven by an improvement in US-dollar pricing quarter-over-quarter, especially to North American markets, combined with the 5% weaker Canadian dollar.

#### Operations

Paper production for the second quarter of 2023 was 30,000 tonnes, down 4,000 tonnes from the previous quarter and down 3,000 tonnes from the same period in the prior year, principally reflecting the scheduled maintenance outage at the Company's paper machine in the current quarter.

Paper unit manufacturing costs were broadly in line with the first quarter of 2023, as a significant reduction in slush pulp costs (tied to the notable decline in Canadian dollar NBSK pulp unit sales realizations), was offset by higher energy costs in the current period following the closure of the Company's Prince George pulp mill in April 2023, and, to a lesser extent, increased spend on operating supplies (timing-related). Compared to the second quarter of 2022, paper unit manufacturing costs saw a moderate increase, largely driven by the aforementioned uplift in conversion costs quarter-over-quarter.

#### **Unallocated Items**

##### **Selected Financial Information**

(millions of Canadian dollars)	<b>Q2 2023</b>	<b>Q1 2023</b>	<b>YTD 2023</b>	<b>Q2 2022</b>	<b>YTD 2022</b>
Corporate costs	\$ (2.6)	\$ (4.1)	\$ (6.7)	\$ (3.2)	\$ (5.9)
Finance expense, net	\$ (3.8)	\$ (2.5)	\$ (6.3)	\$ (1.6)	\$ (2.6)
Other income, net	\$ 2.9	\$ 2.4	\$ 5.3	\$ 1.9	\$ 1.6

Corporate costs were \$2.6 million for the second quarter of 2023, down \$1.5 million from the previous quarter and broadly in line with the second quarter of 2022. The former largely reflected a decline in head office and general administrative expenses in the current period.

Net finance expense for the second quarter of 2023 was \$3.8 million, up \$1.3 million from the previous quarter and up \$2.2 million compared to the same period in the prior year, principally driven by higher financing fees associated with letters of credit, a facility fee related to the renegotiation of the Company's operating loan and term debt facilities, and to a lesser extent, an uplift in interest expense quarter-over-quarter.

Other income, net, of \$2.9 million in the second quarter of 2023 largely related to the receipt of insurance proceeds related to operational downtime experienced at Northwood in recent years, partially offset by unfavourable foreign exchange movements on US-dollar denominated working capital balances. Other income net, of \$2.4 million in the first quarter of 2023 principally reflected the receipt of Northwood related insurance proceeds, while other income, net of \$1.9 million in the second quarter of 2022 was attributable to favourable foreign exchange movements on US-dollar denominated working capital balances.

#### **Other Comprehensive Income**

In the second quarter of 2023, the Company recorded a gain of \$2.8 million (before tax) related to changes in the valuation of the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), principally reflecting a 0.1% increase in the discount rate used to value the net defined benefit obligations and a higher than anticipated return on plan assets. This compared to a gain of \$2.7 million (before tax) in the first quarter of 2023 primarily driven by a higher than anticipated return on plan assets. In the second quarter of 2022, the Company recorded a gain of \$11.0 million (before tax), largely attributable to a 1.2% increase in the discount rate used to value the employee future benefit plans, offset in part by a lower than anticipated return on plan assets.

## SUMMARY OF FINANCIAL POSITION

The following table summarizes CPPI's cash flow and selected ratios for and as at the end of the following periods:

(millions of Canadian dollars, except for ratios)	Q2 2023	Q1 2023	YTD 2023	Q2 2022	YTD 2022
Increase (decrease) in cash and cash equivalents	\$ 8.6	\$ (14.7)	\$ (6.1)	\$ (5.1)	\$ (64.2)
Operating activities	\$ 27.2	\$ 4.3	\$ 31.5	\$ 33.9	\$ (6.1)
Financing activities	\$ (8.6)	\$ (7.2)	\$ (15.8)	\$ (1.3)	\$ (2.1)
Investing activities	\$ (10.0)	\$ (11.8)	\$ (21.8)	\$ (37.7)	\$ (56.0)
Ratio of current assets to current liabilities	1.3:1	1.8:1	1.3:1	1.9:1	1.9:1
Net debt to capitalization <sup>10</sup>	10.8%	12.7%	10.8%	7.8%	7.8%

<sup>10</sup> Net debt to total capitalization is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

### Operating Activities

Cash generated from operating activities in the second quarter of 2023 was \$27.2 million, compared to cash generated of \$4.3 million in the first quarter of 2023 and \$33.9 million in the second quarter of 2022. The \$22.9 million increase in operating cash flows compared to the previous quarter was largely due to favourable movements in non-cash working capital, offset in part by lower cash earnings in the current quarter. The former was primarily driven by a decrease in finished pulp inventories on hand quarter-over-quarter as well as lower accounts receivable, partially offset by a timing-related decrease in accounts payable at the end of the current period. Compared to the second quarter of 2022, the \$6.7 million decrease in operating cash flows largely reflected reduced cash earnings in the current period, offset in part by the aforementioned favourable movements in non-cash working capital.

### Financing Activities

Cash used for financing activities in the second quarter of 2023 was \$8.6 million, compared to cash used of \$7.2 million in the first quarter of 2023 and \$1.3 million in the second quarter of 2022. Cash used for financing activities in the current quarter reflected the conversion of the Company's \$50.0 million term debt into its existing operating loan facility, and a \$5.0 million net repayment of the operating loan facility. Current period financing activities also included financing fees associated with letters of credit. Financing activities in the first quarter of 2023 were comprised of a \$5.0 million repayment of the Company's operating loan facility, as well as term debt interest and financing fees tied to letters of credit. Cash used for financing activities in the second quarter of 2022 principally reflected term debt interest and financing fees related to letters of credit.

### Investing Activities

Cash used for investing activities of \$10.0 million in the current quarter and \$11.8 million in the previous quarter was largely associated with maintenance-of-business capital spend. Cash used for investing activities in the second quarter of 2022 of \$37.7 million was principally comprised of Northwood's RB1 capital upgrade, and to a lesser extent, maintenance-of-business capital.

### Liquidity and Financial Requirements

On May 2, 2023, the Company converted its \$50.0 million non-revolving term debt into its existing \$110.0 million committed operating loan facility, thereby increasing the principal amount of its existing committed operating facility to \$160.0 million.

At June 30, 2023, the Company had a \$160.0 million unsecured operating loan facility, with \$55.0 million drawn at the end of the current quarter and \$13.0 million reserved for several standby letters of credit. At the end of the current quarter, the Company had \$92.0 million available and undrawn on its operating loan facility.

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 floating rate, plus a margin. The operating loan facility is repayable on May 2, 2027 and has certain financial covenants, including a maximum debt to total capitalization ratio.

In addition, on May 2, 2023, the Company secured a commitment to receive up to \$80.0 million of non-revolving term debt to support the Company's continued re-investment in its facilities, specifically Northwood's RB1. This new

non-revolving term debt has a maturity date of May 2, 2027, with interest payable at floating interest rates consistent with its operating loan facility. As at June 30, 2023, this non-revolving term debt remains undrawn.

The Company remained in compliance with the covenants relating to its operating loan facility and term debt during the current quarter and expects to remain so for the foreseeable future.

As at June 30, 2023, the Company had net debt of \$46.4 million and available liquidity of \$180.6 million, of which \$80.0 million relates to the non-revolving term debt and is restricted for use on the continued re-investment in its facilities, specifically Northwood's RB1.

## **OUTLOOK**

### **Pulp and Paper Markets**

Looking forward, global softwood kraft pulp markets are anticipated to remain challenging through the third quarter of 2023, as record high global pulp producer inventory levels are projected to continue to be met with weak global pulp demand, particularly for paper and writing grades. In addition, the traditionally slower summer months are anticipated to further soften global pulp demand, particularly in the short-term. The Company will continue to monitor the challenging market conditions and will adjust operating rates, if appropriate, through the balance of 2023.

The labour dispute at the Ports of Vancouver and Prince Rupert that commenced on July 1, 2023, put pressure on a constrained logistics network in British Columbia. As a direct result, with pulp mill inventories at capacity, the Company curtailed its Northwood pulp mill in July for approximately one week, with an estimated 10,000 tonnes of reduced NBSK pulp production.

Results in the third quarter of 2023 are also forecast to reflect a scheduled maintenance outage at Northwood in September, with a projected 25,000 tonnes of reduced NBSK pulp production, as well as higher associated maintenance costs and lower projected shipment volume. As part of this outage, the Company will complete an inspection of its assets at this facility, including the two recovery boilers, with the intention of formulating a re-investment plan for Northwood's RB1, as well as the facility as a whole, that is focused on optimizing this mill for the long-term.

Bleached kraft paper markets are anticipated to weaken through the third quarter of 2023, particularly in the North American markets, as tepid demand is combined with above-average paper inventory levels.

### **OUTSTANDING SHARES**

As at June 30, 2023 and July 27, 2023, there were 65,233,559 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%.

### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, pension and other employee future benefit plans and asset retirement obligations based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Company's financial condition.

### **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

During the quarter ended June 30, 2023, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

### **RISKS AND UNCERTAINTIES**

A comprehensive discussion of risks and uncertainties is included in the Company's 2022 annual statutory reports, which are available on [www.canfor.com](http://www.canfor.com) or [www.sedar.com](http://www.sedar.com).

Sales are primarily influenced by changes in market pulp prices, sales volumes, global supply chain networks and fluctuations in Canadian dollar exchange rates. Operating income (loss), net income (loss) and operating income (loss) before amortization, asset write-down and impairment are primarily impacted by: sales revenue; freight costs; fluctuations of fibre, chemical and energy prices; level of spending and timing of maintenance downtime; and

production curtailments. Net income (loss) is also impacted by fluctuations in Canadian dollar exchange rates, and the revaluation to the period end rate of US-dollar denominated working capital balances.

## SELECTED QUARTERLY FINANCIAL INFORMATION

	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
<b>Sales and income (loss)</b> (millions of Canadian dollars)								
Sales	\$ 249.5	\$ 243.3	\$ 268.1	\$ 308.3	\$ 288.9	\$ 220.3	\$ 249.3	\$ 298.9
Operating income (loss) before amortization, asset write-down and impairment <sup>11</sup>	\$ (15.3)	\$ (0.6)	\$ (15.1)	\$ 46.7	\$ 15.7	\$ (5.9)	\$ (19.6)	\$ 37.8
Operating income (loss)	\$ (37.9)	\$ (25.2)	\$ (91.1)	\$ 19.2	\$ (8.1)	\$ (26.0)	\$ (137.2)	\$ 15.8
Net income (loss)	\$ (28.4)	\$ (18.8)	\$ (69.8)	\$ 16.3	\$ (5.7)	\$ (19.9)	\$ (101.1)	\$ 12.1
<b>Per common share</b> (Canadian dollars)								
Net income (loss) – basic and diluted	\$ (0.44)	\$ (0.29)	\$ (1.07)	\$ 0.25	\$ (0.09)	\$ (0.31)	\$ (1.55)	\$ 0.19
Book value <sup>12</sup>	\$ 5.89	\$ 6.29	\$ 6.55	\$ 7.65	\$ 7.43	\$ 7.39	\$ 7.59	\$ 9.09
<b>Statistics</b>								
Pulp shipments (000 mt)	179	152	170	199	205	176	216	241
Paper shipments (000 mt)	32	35	32	32	34	31	27	34
Average exchange rate – US\$/Cdn\$	\$ 0.745	\$ 0.740	\$ 0.736	\$ 0.766	\$ 0.783	\$ 0.790	\$ 0.794	\$ 0.794
Average NBSK pulp list price delivered to China (US\$)	\$ 668	\$ 891	\$ 920	\$ 969	\$ 1,008	\$ 899	\$ 723	\$ 832

<sup>11</sup> Amortization includes amortization of certain capitalized major maintenance costs; includes an asset write-down and impairment charge totaling \$49.6 million in Q4 2022 and \$95.0 million in Q4 2021.

<sup>12</sup> Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

Other material factors that impact the comparability of the quarters are noted below:

After-tax impact

(millions of Canadian dollars, except for per share amounts)	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
<b>Net income (loss), as reported</b>	\$ (28.4)	\$ (18.8)	\$ (69.8)	\$ 16.3	\$ (5.7)	\$ (19.9)	\$ (101.1)	\$ 12.1
Asset write-down and impairment, net of tax	\$ -	\$ -	\$ 36.2	\$ -	\$ -	\$ -	\$ 69.4	\$ -
<b>Adjusted net income (loss)<sup>13</sup></b>	\$ (28.4)	\$ (18.8)	\$ (33.6)	\$ 16.3	\$ (5.7)	\$ (19.9)	\$ (31.7)	\$ 12.1
<b>Net income (loss) per share (EPS), as reported</b>	\$ (0.44)	\$ (0.29)	\$ (1.07)	\$ 0.25	\$ (0.09)	\$ (0.31)	\$ (1.55)	\$ 0.19
Net impact of above items per share	\$ -	\$ -	\$ 0.55	\$ -	\$ -	\$ -	\$ 1.06	\$ -
<b>Adjusted net income (loss) per share<sup>13</sup></b>	\$ (0.44)	\$ (0.29)	\$ (0.52)	\$ 0.25	\$ (0.09)	\$ (0.31)	\$ (0.49)	\$ 0.19

<sup>13</sup> Adjusted net income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

## NON-IFRS FINANCIAL MEASURES

Throughout this interim MD&A, 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. The following table provides a reconciliation of these non-IFRS financial measures to figures reported in the Company's condensed consolidated interim financial statements:

(millions of Canadian dollars)	Q2 2023	Q1 2023	Q2 2022
Reported operating loss	\$ (37.9)	\$ (25.2)	\$ (8.1)
Inventory write-down, net	\$ 6.9	\$ 3.6	\$ 0.5
Adjusted operating loss	\$ (31.0)	\$ (21.6)	\$ (7.6)
Amortization	\$ 22.6	\$ 24.6	\$ 23.8
Adjusted operating income (loss) before amortization	\$ (8.4)	\$ 3.0	\$ 16.2

(millions of Canadian dollars, except ratios)	<b>Q2 2023</b>	<b>Q1 2023</b>	<b>Q2 2022</b>
Reported operating loss	\$ (37.9)	\$ (25.2)	\$ (8.1)
Other income, net	\$ 3.8	\$ 2.5	\$ -
Return	\$ (34.1)	\$ (22.7)	\$ (8.1)

Average invested capital <sup>14</sup>	\$ 553.5	\$ 573.3	\$ 661.1
Return on invested capital (ROIC)	(6.2)%	(4.0%)	(1.2) %

<sup>14</sup> Average invested capital represents the average during the period of total assets excluding cash and cash equivalents and total liabilities excluding term debt, retirement benefit obligations and deferred taxes.


(millions of Canadian dollars, except ratios)	<b>As at June 30, 2023</b>	<b>As at December 31, 2022</b>	<b>As at June 30, 2022</b>
Term-debt	\$ -	\$ 50.0	\$ 50.0
Operating loan	\$ 55.0	\$ 15.0	\$ -
Less: Cash and cash equivalents	\$ 8.6	\$ 14.7	\$ 9.1
Net debt	\$ 46.4	\$ 50.3	\$ 40.9
Total equity	\$ 384.2	\$ 427.4	\$ 484.6
Total capitalization	\$ 430.6	\$ 477.7	\$ 525.5
Net debt to total capitalization	10.8%	10.5%	7.8 %

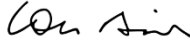
**Canfor Pulp Products Inc.**  
**Condensed Consolidated Balance Sheets**

(millions of Canadian dollars, unaudited)	<b>As at June 30, 2023</b>	As at December 31, 2022
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 8.6	\$ 14.7
Trade receivables	53.8	82.4
Other receivables	8.4	5.2
Income taxes recoverable	2.5	2.3
Inventories (Note 2)	158.6	183.2
Prepaid expenses and other	22.2	26.6
<b>Total current assets</b>	<b>254.1</b>	<b>314.4</b>
<b>Property, plant and equipment and intangible assets</b>		
<b>Right-of-use assets</b>	<b>1.7</b>	<b>1.8</b>
<b>Retirement benefit surplus</b> (Note 4)	<b>0.7</b>	<b>-</b>
<b>Other long-term assets</b>	<b>6.9</b>	<b>8.4</b>
<b>Total assets</b>	<b>\$ 672.3</b>	<b>\$ 756.0</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 142.5	\$ 150.1
Operating loan (Note 3(a))	55.0	15.0
Current portion of lease obligations	0.8	0.9
<b>Total current liabilities</b>	<b>198.3</b>	<b>166.0</b>
<b>Term debt</b> (Note 3(b))	<b>-</b>	<b>50.0</b>
<b>Retirement benefit obligations</b> (Note 4)	<b>41.3</b>	<b>48.4</b>
<b>Lease obligations</b>	<b>1.8</b>	<b>1.9</b>
<b>Other long-term provisions</b>	<b>7.3</b>	<b>6.9</b>
<b>Deferred income taxes, net</b>	<b>39.4</b>	<b>55.4</b>
<b>Total liabilities</b>	<b>\$ 288.1</b>	<b>\$ 328.6</b>
<b>EQUITY</b>		
Share capital	\$ 480.8	\$ 480.8
Accumulated deficit	(96.6)	(53.4)
<b>Total equity</b>	<b>\$ 384.2</b>	<b>\$ 427.4</b>
<b>Total liabilities and equity</b>	<b>\$ 672.3</b>	<b>\$ 756.0</b>

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

APPROVED BY THE BOARD

  
 Director, N.J. Mayr

  
 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 June 30,		6 months ended June 30,	
	<b>2023</b>	2022	<b>2023</b>	2022
<b>Sales</b>	<b>\$ 249.5</b>	\$ 288.9	<b>\$ 492.8</b>	\$ 509.2
<b>Costs and expenses</b>				
Manufacturing and product costs	<b>226.0</b>	226.2	<b>428.2</b>	415.5
Freight and other distribution costs	<b>32.2</b>	38.0	<b>62.7</b>	68.9
Amortization	<b>22.6</b>	23.8	<b>47.2</b>	43.9
Selling and administration costs	<b>6.0</b>	7.3	<b>14.6</b>	13.3
Restructuring costs (Note 10)	<b>0.6</b>	1.7	<b>3.2</b>	1.7
	<b>287.4</b>	297.0	<b>555.9</b>	543.3
<b>Operating loss</b>	<b>(37.9)</b>	(8.1)	<b>(63.1)</b>	(34.1)
Finance expense, net	<b>(3.8)</b>	(1.6)	<b>(6.3)</b>	(2.6)
Other income, net (Note 11)	<b>2.9</b>	1.9	<b>5.3</b>	1.6
Net loss before income taxes	<b>(38.8)</b>	(7.8)	<b>(64.1)</b>	(35.1)
Income tax recovery (Note 5)	<b>10.4</b>	2.1	<b>16.9</b>	9.5
<b>Net loss</b>	<b>\$ (28.4)</b>	\$ (5.7)	<b>\$ (47.2)</b>	\$ (25.6)
<b>Net loss per common share:</b> (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 6)	<b>\$ (0.44)</b>	\$ (0.09)	<b>\$ (0.72)</b>	\$ (0.39)

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 (Loss)

(millions of Canadian dollars, unaudited)	3 months ended June 30,		6 months ended June 30,	
	<b>2023</b>	2022	<b>2023</b>	2022
<b>Net loss</b>	\$ (28.4)	\$ (5.7)	\$ (47.2)	\$ (25.6)
<b>Other comprehensive income</b>				
Items that will not be reclassified subsequently to net loss:				
Defined benefit plan actuarial gains, net (Note 4)	2.8	11.0	5.5	20.8
Income tax expense on defined benefit plan actuarial gains, net (Note 5)	(0.8)	(2.9)	(1.5)	(5.6)
Other comprehensive income, net of tax	2.0	8.1	4.0	15.2
<b>Total comprehensive income (loss)</b>	\$ (26.4)	\$ 2.4	\$ (43.2)	\$ (10.4)

### Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended June 30,		6 months ended June 30,	
	<b>2023</b>	2022	<b>2023</b>	2022
<b>Share capital</b>				
Balance at beginning and end of period	\$ 480.8	\$ 480.8	\$ 480.8	\$ 480.8
<b>Retained earnings (accumulated deficit)</b>				
Balance at beginning of period	\$ (70.2)	\$ 1.4	\$ (53.4)	\$ 14.2
Net loss	(28.4)	(5.7)	(47.2)	(25.6)
Defined benefit plan actuarial gains, net of tax	2.0	8.1	4.0	15.2
Balance at end of period	\$ (96.6)	\$ 3.8	\$ (96.6)	\$ 3.8
<b>Total equity</b>	\$ 384.2	\$ 484.6	\$ 384.2	\$ 484.6

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

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

(millions of Canadian dollars, unaudited)	3 months ended June 30,		6 months ended June 30,	
	<b>2023</b>	2022	<b>2023</b>	2022
<b>Cash generated from (used in):</b>				
<b>Operating activities</b>				
Net loss	\$ (28.4)	\$ (5.7)	\$ (47.2)	\$ (25.6)
Items not affecting cash:				
Amortization	22.6	23.8	47.2	43.9
Income tax recovery (Note 5)	(10.4)	(2.1)	(16.9)	(9.5)
Employee future benefits expense	0.4	0.8	1.0	1.6
Finance expense, net	3.8	1.6	6.3	2.6
Restructuring costs (Note 10)	0.6	1.7	3.2	1.7
Other, net	0.3	(0.8)	1.1	(0.6)
Defined benefit plan contributions, net	(3.3)	(0.7)	(4.2)	(1.7)
Income taxes received (paid), net	0.1	(1.0)	(0.7)	(3.2)
	<b>(14.3)</b>	17.6	<b>(10.2)</b>	9.2
Net change in non-cash working capital (Note 7)	<b>41.5</b>	16.3	<b>41.7</b>	(15.3)
	<b>27.2</b>	33.9	<b>31.5</b>	(6.1)
<b>Financing activities</b>				
Operating loan drawings, net (Note 3(a))	45.0	-	40.0	-
Conversion of term debt (Note 3(a))	(50.0)	-	(50.0)	-
Payment of lease obligations	(0.2)	(0.2)	(0.4)	(0.4)
Finance expenses paid	(3.4)	(1.1)	(5.4)	(1.7)
	<b>(8.6)</b>	(1.3)	<b>(15.8)</b>	(2.1)
<b>Investing activities</b>				
Additions to property, plant and equipment and intangible assets, net	(10.3)	(37.7)	(22.3)	(56.1)
Other, net	0.3	-	0.5	0.1
	<b>(10.0)</b>	(37.7)	<b>(21.8)</b>	(56.0)
<b>Increase (decrease) in cash and cash equivalents*</b>	<b>8.6</b>	(5.1)	<b>(6.1)</b>	(64.2)
Cash and cash equivalents at beginning of period*	-	14.2	14.7	73.3
<b>Cash and cash equivalents at end of period*</b>	<b>\$ 8.6</b>	\$ 9.1	<b>\$ 8.6</b>	\$ 9.1

\*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 Interim Financial Statements

Three and six months ended June 30, 2023 and 2022

### 1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Pulp Products Inc. and its subsidiary entities, hereinafter referred to as "CPPI" or "the Company." At June 30, 2023 and July 27, 2023, 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 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, 2022, 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 July 27, 2023.

### 2. Inventories

(millions of Canadian dollars, unaudited)	<b>As at June 30, 2023</b>	As at December 31, 2022
Pulp	\$ 61.6	\$ 66.6
Paper	25.6	29.6
Wood chips and logs	15.1	27.5
Materials and supplies	56.3	59.5
	<b>\$ 158.6</b>	<b>\$ 183.2</b>

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended June 30, 2023, a \$6.9 million net inventory write-down expense was recognized (six months ended June 30, 2023 – \$10.5 million net write-down expense). For the three months ended June 30, 2022, a \$0.5 million inventory write-down expense was recognized (six months ended June 30, 2022 – \$0.6 million net write-down recovery). At June 30, 2023, a provision for finished pulp, wood chips and logs of \$12.9 million was recognized (December 31, 2022 – provision of \$2.4 million related to logs).

### 3. Operating Loan and Term Debt

#### (a) Available Operating Loan

(millions of Canadian dollars, unaudited)	<b>As at June 30, 2023</b>	As at December 31, 2022
Operating loan facility	\$ 160.0	\$ 110.0
Letters of credit	(13.0)	(12.9)
Operating loan facility drawn down	(55.0)	(15.0)
Total available operating loan facility	<b>\$ 92.0</b>	<b>\$ 82.1</b>

On May 2, 2023, the Company converted its \$50.0 million non-revolving term debt (Note 3(b)) into its existing \$110.0 million committed operating loan facility, thereby increasing the principal amount of its existing committed operating facility to \$160.0 million.

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 floating rate, plus a margin.

The operating loan facility is repayable on May 2, 2027 and has certain financial covenants, including a maximum debt to total capitalization ratio. At June 30, 2023, the Company was fully in compliance with all covenants relating to its operating loan facility.

**(b) Term Debt**

On May 2, 2023, the Company secured a commitment to receive up to \$80.0 million of non-revolving term debt to support the Company's continued re-investment in its facilities, specifically Northwood Northern Bleached Softwood Kraft pulp mill's ("Northwood") recovery boiler number one ("RB1"). This new non-revolving term debt has a maturity date of May 2, 2027, with interest payable at floating interest rates consistent with its operating loan facility. As at June 30, 2023, this non-revolving term debt remains undrawn.

**4. Retirement Benefit Obligations**

For the three months ended June 30, 2023, actuarial gains of \$2.8 million (before tax) were recognized in other comprehensive income (loss) in relation to the Company's net defined benefit obligations (comprised of defined benefit plans as well as other benefit plans), principally reflecting a higher discount rate used to value the net defined benefit obligations and a higher than anticipated return on plan assets. For the six months ended June 30, 2023, actuarial gains of \$5.5 million (before tax) were recognized in other comprehensive income (loss).

For the three months ended June 30, 2022, actuarial gains of \$11.0 million (before tax) were recognized in other comprehensive income (loss), reflecting a higher discount rate used to value the net defined benefit obligations, offset in part by a lower than anticipated return on plan assets. For the six months ended June 30, 2022, actuarial gains of \$20.8 million (before tax) were recognized in other comprehensive income (loss).

The discount rate assumptions used to estimate the changes in net retirement benefit obligations were as follows:

	<b>Defined Benefit Pension Plans</b>	<b>Other Benefit Plans</b>
June 30, 2023	<b>4.9%</b>	<b>4.9%</b>
March 31, 2023	4.8%	4.8%
December 31, 2022	4.8%	4.8%
June 30, 2022	5.0%	5.0%
March 31, 2022	3.8%	3.8%
December 31, 2021	3.0%	3.0%

**5. Income Taxes**

The components of income tax recovery are as follows:

(millions of Canadian dollars, unaudited)	3 months ended June 30,		6 months ended June 30,	
	<b>2023</b>	2022	<b>2023</b>	2022
Current	\$ (0.5)	-	(0.6)	6.4
Deferred	<b>10.9</b>	2.1	<b>17.5</b>	3.1
Income tax recovery	\$ <b>10.4</b>	\$ 2.1	\$ <b>16.9</b>	\$ 9.5

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

(millions of Canadian dollars, unaudited)	3 months ended June 30,		6 months ended June 30,	
	<b>2023</b>	2022	<b>2023</b>	2022
Income tax recovery at statutory rate of 27.0% (2022 – 27.0%)	\$ <b>10.5</b>	2.1	<b>17.3</b>	9.5
Add:				
Entities with different income tax rates and other tax adjustments	<b>(0.1)</b>	-	<b>0.1</b>	-
Permanent difference from capital gains and losses and other non-deductible items	-	-	<b>(0.5)</b>	-
Income tax recovery	\$ <b>10.4</b>	\$ 2.1	\$ <b>16.9</b>	\$ 9.5

In addition to the amounts recorded to net loss, tax expense of \$0.8 million and \$1.5 million were recorded to other comprehensive income (loss) in relation to actuarial gains on the Company's defined benefit plans for the three and six months ended June 30, 2023, respectively (three and six months ended June 30, 2022 – \$2.9 million and \$5.6 million, respectively).

## 6. Earnings (Loss) Per Common Share

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

	3 months ended June 30,		6 months ended June 30,	
	2023	2022	2023	2022
Weighted average number of common shares	<b>65,233,559</b>	65,233,559	<b>65,233,559</b>	65,233,559

As at June 30, 2023 and July 27, 2023, there were 65,233,559 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%.

## 7. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended June 30,		6 months ended June 30,	
	2023	2022	2023	2022
Trade and other receivables	\$ <b>26.3</b>	\$ (11.5)	\$ <b>25.4</b>	\$ (20.6)
Inventories	<b>37.8</b>	12.5	<b>18.6</b>	(5.2)
Prepaid expenses and other	<b>(0.5)</b>	4.7	<b>4.3</b>	1.5
Accounts payable and accrued liabilities	<b>(22.1)</b>	10.6	<b>(6.6)</b>	9.0
Net change in non-cash working capital	\$ <b>41.5</b>	\$ 16.3	\$ <b>41.7</b>	\$ (15.3)

## 8. 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 June 30, 2023</b>					
<b>Sales from contracts with customers</b>	\$ <b>197.6</b>	\$ <b>51.9</b>	\$ -	\$ -	\$ <b>249.5</b>
<b>Sales to other segments</b>	<b>25.4</b>	-	-	<b>(25.4)</b>	-
<b>Operating income (loss)</b>	<b>(36.0)</b>	<b>0.7</b>	<b>(2.6)</b>	-	<b>(37.9)</b>
<b>Amortization</b>	<b>21.9</b>	<b>0.7</b>	-	-	<b>22.6</b>
<b>Capital expenditures</b>	<b>9.7</b>	<b>0.1</b>	<b>0.5</b>	-	<b>10.3</b>
3 months ended June 30, 2022					
Sales from contracts with customers	\$ 236.7	\$ 52.2	\$ -	\$ -	\$ 288.9
Sales to other segments	30.2	-	-	(30.2)	-
Operating income (loss)	(11.1)	6.2	(3.2)	-	(8.1)
Amortization	23.3	0.5	-	-	23.8
Capital expenditures	37.1	0.1	0.5	-	37.7
<b>6 months ended June 30, 2023</b>					
<b>Sales from contracts with customers</b>	\$ <b>385.0</b>	\$ <b>107.8</b>	\$ -	\$ -	\$ <b>492.8</b>
<b>Sales to other segments</b>	<b>58.8</b>	-	-	<b>(58.8)</b>	-
<b>Operating income (loss)</b>	<b>(60.4)</b>	<b>4.0</b>	<b>(6.7)</b>	-	<b>(63.1)</b>
<b>Amortization</b>	<b>46.1</b>	<b>1.1</b>	-	-	<b>47.2</b>
<b>Capital expenditures<sup>1</sup></b>	<b>21.6</b>	<b>0.2</b>	<b>0.5</b>	-	<b>22.3</b>
<b>Total assets</b>	<b>585.0</b>	<b>71.7</b>	<b>15.6</b>	-	<b>672.3</b>
6 months ended June 30, 2022					
Sales from contracts with customers	\$ 413.2	\$ 96.0	\$ -	\$ -	\$ 509.2
Sales to other segments	56.3	-	-	(56.3)	-
Operating income (loss)	(40.4)	12.2	(5.9)	-	(34.1)
Amortization	42.9	1.0	-	-	43.9
Capital expenditures	54.6	0.6	0.9	-	56.1
Total assets	749.6	64.0	27.8	-	841.4

<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 June 30,				6 months ended June 30,			
	<b>2023</b>		2022		<b>2023</b>		2022	
Sales by location of customer								
Canada	<b>9%</b>	<b>\$ 21.8</b>	7%	\$ 20.3	<b>8%</b>	<b>\$ 40.7</b>	8%	\$ 40.3
Asia	<b>62%</b>	<b>154.5</b>	64%	183.6	<b>59%</b>	<b>289.6</b>	60%	307.0
United States	<b>19%</b>	<b>48.7</b>	22%	63.3	<b>23%</b>	<b>114.8</b>	24%	121.2
Europe	<b>6%</b>	<b>14.5</b>	5%	15.2	<b>6%</b>	<b>28.0</b>	5%	26.7
Other	<b>4%</b>	<b>10.0</b>	2%	6.5	<b>4%</b>	<b>19.7</b>	3%	14.0
	<b>100%</b>	<b>\$ 249.5</b>	100%	\$ 288.9	<b>100%</b>	<b>\$ 492.8</b>	100%	\$ 509.2

## 9. Related Party Transactions

For the six months ended June 30, 2023, the Company depended on Canfor to provide approximately 63% (six months ended June 30, 2022 – 57%) of its fibre supply as well as certain key business and administrative services. As a result of these relationships, the Company considers its operations to be dependent on its ongoing relationship with Canfor. The transactions with Canfor are consistent with the transactions described in the December 31, 2022 audited consolidated financial statements of CPPI and are based on agreed-upon amounts between the parties.

The current market-based pricing under one of the Company's Fibre Supply Agreements with Canfor expired on June 30, 2021. The Company and Canfor agreed to extend the pricing agreement with terms currently under review and expected to be finalized in 2023.

Transactions and payables to Canfor include purchases of wood chips, logs, hog fuel and administrative services. These are summarized below:

(millions of Canadian dollars, unaudited)	3 months ended June 30,		6 months ended June 30,	
	<b>2023</b>	2022	<b>2023</b>	2022
<b>Transactions</b>				
Purchase of wood chips and other	<b>\$ 44.2</b>	\$ 39.0	<b>\$ 91.9</b>	\$ 88.3

(millions of Canadian dollars, unaudited)	<b>As at June 30, 2023</b>	As at December 31, 2022
<b>Balance Sheet</b>		
Included in accounts payable and accrued liabilities	<b>\$ 19.0</b>	\$ 19.0

## 10. Restructuring Costs

In January 2023, the Company announced the decision to permanently close the pulp line at its Prince George Pulp and Paper mill. As a result, the Company recognized restructuring costs of \$0.6 million and \$3.2 million during the three and six months ended June 30, 2023, respectively, included in 'Restructuring costs' on the condensed consolidated statement of income (loss).

## 11. Other Income, Net

During the three and six months ended June 30, 2023, the Company received insurance proceeds of \$3.8 million and \$6.2 million, respectively, related to operational downtime experienced at Northwood in recent years, included in 'Other income, net' on the condensed consolidated statement of income (loss).