2022

MANAGEMENT'S DISCUSSION & ANALYSIS

CANFOR PULP PRODUCTS INC.

2022 MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("Canfor Pulp", "CPPI" or "the Company") financial performance for the year ended December 31, 2022 relative to the year ended December 31, 2021, and the financial position of the Company at December 31, 2022. It should be read in conjunction with CPPI's Annual Information Form and its audited consolidated financial statements and accompanying notes for the years ended December 31, 2022 and 2021 (available at www.canfor.com). The financial information contained in this 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 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 repayment 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 "Overview of Consolidated Results – 2022 Compared to 2021") 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 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 (loss) 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 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.

Also in this MD&A, reference is made to net debt (cash), net debt (cash) 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 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 other 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 February 28, 2023.

<u>Forward-Looking Statements</u>

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.

COMPANY OVERVIEW

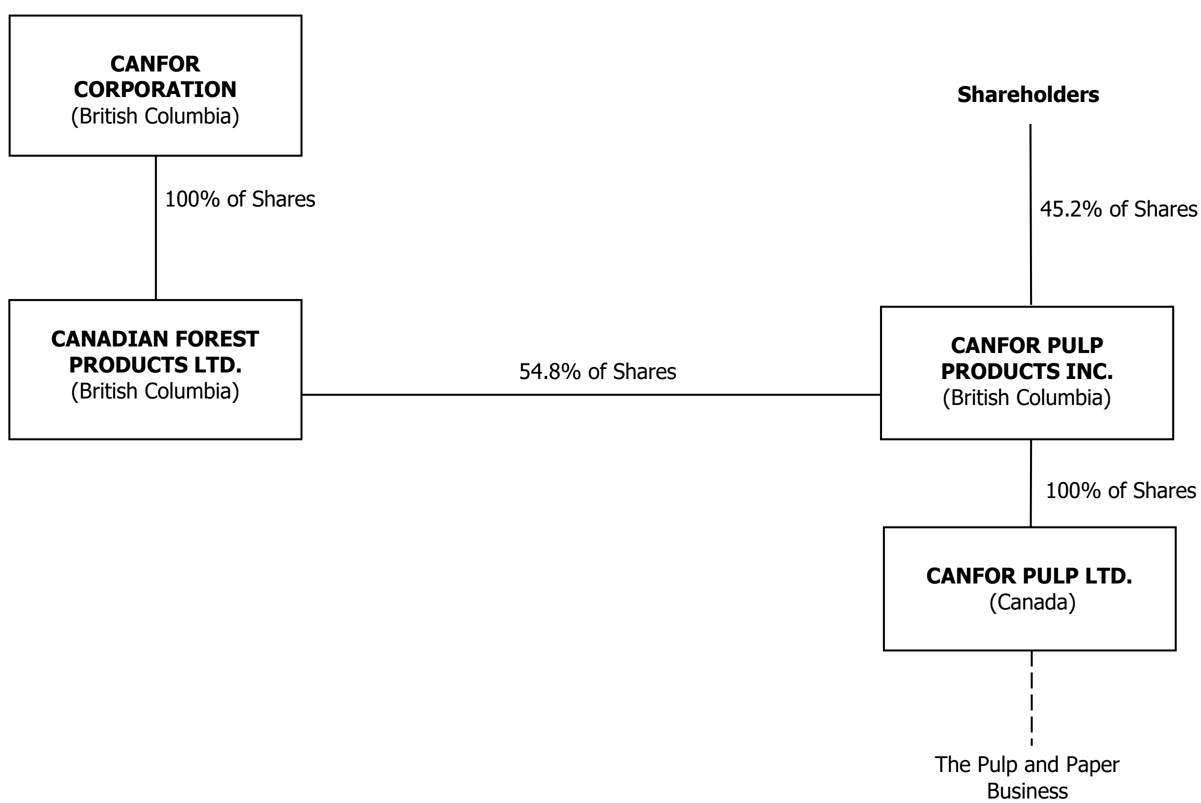
CPPI is a company incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The consolidated financial statements of the Company as at and for the year ended December 31, 2022 comprise the Company and its subsidiary entities. Throughout 2022, the Company's operations consisted of two Northern Bleached Softwood Kraft ("NBSK") pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia ("BC"); a Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill located in Taylor, BC and a marketing group based in Vancouver, BC.

At December 31, 2022, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI, unchanged from December 31, 2021.

CPPI employed 1,196 people in its wholly owned subsidiaries as at December 31, 2022.

The following chart illustrates, on a simplified basis, the ownership structure of CPPI (collectively "the Company") as at December 31, 2022.

Simplified Ownership Structure



Pulp

As at December 31, 2022, the Company owned and operated three NBSK pulp mills with an annual production capacity of approximately 1.1 million tonnes of northern softwood market kraft pulp, the significant majority of which was bleached to become NBSK pulp, and approximately 140,000 tonnes of kraft paper.

The Northwood pulp mill, a two-line pulp mill with an annual production capacity of approximately 600,000 tonnes of NBSK pulp, continues to be the largest NBSK pulp facility in North America. During 2022, Northwood's pulp was used to make a variety of products including specialty products, premium tissue and printing and writing papers, and was primarily delivered to customers in North America and Asia.

The Intercontinental pulp mill, a single-line pulp mill with an annual production capacity of approximately 320,000 tonnes of NBSK pulp, was used to make substantially the same products as that of Northwood, and was delivered to North America, Asia and Europe.

During 2022, the Prince George pulp and paper mill was an integrated two-line pulp and paper mill with an annual market pulp production capacity of approximately 150,000 tonnes. The Prince George pulp and paper mill supplied to pulp markets in North America, Asia and Europe, as well as to its internal paper making facilities.

The Company also owns the Taylor pulp mill, a BCTMP facility that has an annual production capacity of 230,000 tonnes.

On January 11, 2023, the Company announced the right-sizing of its operating footprint to the long-term supply of economic residual fibre with the permanent closure of the pulp line at its Prince George pulp and paper mill, which will result in a reduction of approximately 280,000 tonnes of market kraft pulp annually.

Paper

During 2022, and on a go-forward basis, the Company's paper machine, located at the Prince George pulp and paper mill, has an annual production capacity of approximately 140,000 tonnes of kraft paper, including a wide range of high performance bleached and unbleached kraft and specialty papers. The paper mill supplies primarily North American, Asian and European markets.

Business Strategy

CPPI's overall business strategy is to be a sustainable pulp and paper industry leader with strong financial performance, accomplished through:

- Attaining world-class safety performance;
- Demonstrating efficient and reliable operational performance, while optimizing the value from its high-quality premium reinforced pulp and paper products, particularly in specialty end use applications;
- Implementing a sustainability strategy that is helping to protect our planet, support our people and communities, and produce pulp and paper products that are an important part of a low-carbon economy;
- Growing an enterprise-wide culture of innovation, inclusion, diversity and engagement by attracting, retaining and developing our employees;
- Attaining world-class supply chain performance and providing excellence in customer service; and
- Maintaining a strong financial position focusing on an efficient allocation of capital and deployment of resources to achieve top-quartile operational performance, capitalizing on attractive growth opportunities.

OVERVIEW OF 2022

2022 was a difficult year for Canfor Pulp, as strong global pulp market fundamentals and near-record high pulp list pricing were more than outweighed by the impact of global supply chain disruptions, fibre shortages in British Columbia ("BC") as well as operational efficiency and reliability challenges at all of the Company's pulp mills.

Early in 2023, after an extensive analysis of its operating footprint and the long-term supply of economic residual fibre, Canfor Pulp made the decision to permanently close the pulp line at its Prince George pulp and paper mill ("PG").

As a result of this decision, as well as the ongoing challenges to the business posed by fibre availability and costs, the Company recorded an asset write-down and impairment charge totaling $49.6 million in its results for the year ended December 31, 2022.

Before taking account of adjusting items, largely comprised of the aforementioned asset write-down and impairment charge, the Company's operating loss was $58.6 million for the current year, with adjusted net loss of $0.66 per share, down $90.5 million from the adjusted operating income of $31.9 million for the prior year, and adjusted net income of $0.38 per share. The Company reported an operating loss for 2022 of $106.0 million, versus an operating loss of $65.5 million for 2021.

Global pulp market conditions continued to strengthen through most of 2022, as persistent global supply chain challenges and unplanned global pulp supply outages were combined with high levels of post-pandemic global demand and gave rise to sustained periods of high global pulp pricing. Prices to China, the world's largest consumer of softwood pulp, continued its upward pricing momentum through the first half of 2022, reaching a near-record high of US$1,010 per tonne in July. However, as purchasing activity waned somewhat, prices to this region declined through the latter part of the year to end the year at US$885 per tonne. For the 2022 year as a whole, NBSK pulp list prices to China averaged US$949[1] per tonne, an increase of US$99 per tonne, or 12%, from 2021.

Operating losses for the pulp segment were $110.9 million in 2022. After taking account of adjusting items, the pulp segment losses for the current year were $63.5 million, a decline of $105.1 million compared to an adjusted operating income of $41.6 million in the previous year. These results reflect notably higher NBSK pulp unit sales realizations being more than offset by the impact of a difficult year operationally for all of the Company's pulp mills, driven by both external and internal factors including global transportation disruptions and fibre shortages in BC. The combined impact of scheduled and unplanned downtime taken in 2022 not only reduced the Company's pulp segment production and shipments, but also had an adverse impact on unit fibre costs, manufacturing costs and energy revenue in the current year.

On a positive note, the Company's paper business results improved considerably in 2022, as a notable uplift in US-dollar kraft paper prices, principally driven by the continued growth in global demand for kraft paper products, more than offset significantly higher slush pulp prices, tied to high NBSK pulp prices in the current year.

Despite the operational challenges faced by Canfor Pulp in 2022, the Company maintained a solid balance sheet, finishing 2022 with net debt of $50.3 million, available liquidity of $96.8 million and a net debt to total capitalization ratio of 10.5%.

A review of the more significant developments and results by operating segment in 2022 follows.

Markets and Pricing

(i) Pulp – Global supply chain challenges & unplanned outages give rise to strength in global pulp fundamentals and pricing in 2022

Global pulp market conditions were very strong throughout most of 2022. The upward pricing momentum experienced in the latter part of 2021 continued into the first half of 2022, as global pulp markets tightened significantly, primarily driven by global transportation challenges, inflationary cost pressures as well as unplanned global production outages. Towards the end of the year, however, market fundamentals came under pressure as a moderation in purchasing activity from China was combined with an uplift in global pulp market supply, principally reflecting the combined impact of incremental softwood supply in Europe and additional hardwood pulp capacity from South America.

As a result, NBSK pulp list prices to China reached near-record highs mid-2022, and for the 2022 year averaged US$949 per tonne, US$99 per tonne, or 12%, higher than the 2021 average price. Prices weakened somewhat, however, late in the year, in response to slowing demand and an increase in supply, ending the year at US$885 per tonne. North American pulp prices experienced similar trends to Asia with list prices to that region showing a notable improvement from US$1,450 per tonne in January to a peak of US$1,805 per tonne mid-2022, before declining to US$1,720 per tonne in December (before taking account of customer discounts, which were broadly unchanged year-over-year).

[1] Resource Information Systems, Inc.

Global softwood pulp producer inventories started 2022 at 43[2] days of supply, and continued to increase through the first quarter of 2022, as supply chain delays and congestion led to longer delivery times for pulp buyers, contributing to lean consumer inventories and ongoing pricing pressure. As the year progressed, these conditions continued and global softwood pulp inventories stayed at the high end of the balanced range, ending the year at 43 days of supply. Market conditions are generally considered balanced when inventories are in the 32-43[2] days of supply range.

The following charts show the NBSK pulp list price movements in 2022, before taking account of customer discounts and rebates (Chart 1), global pulp shipments by destination (Chart 2), and the global pulp inventory levels (Chart 3).

Chart 1

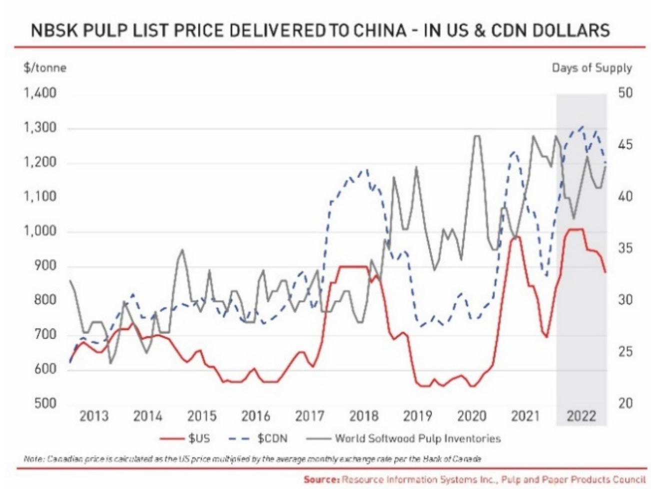
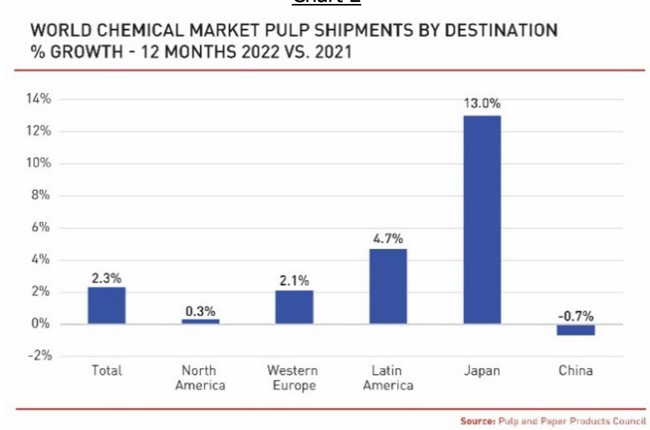
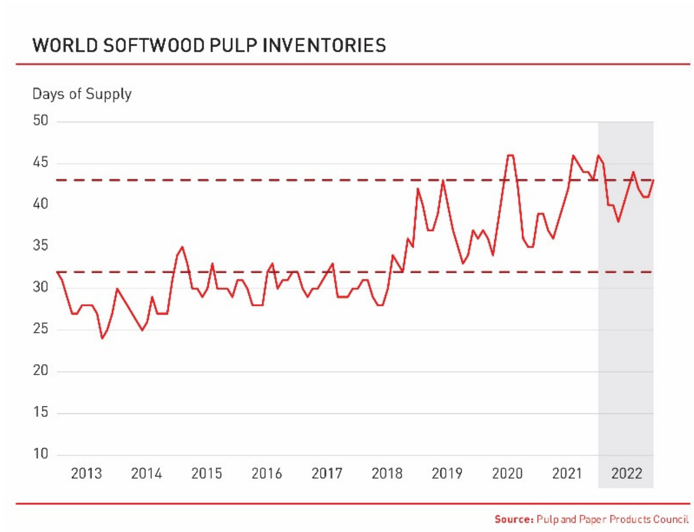


Chart 2



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

Chart 3



(ii) Paper – Global kraft paper market fundamentals remain strong in 2022

The post-pandemic demand for food grade kraft paper products and home building supplies packaged in kraft paper remained strong throughout most of 2022, particularly in North America. Demand in offshore markets, that had been lagging North America, experienced an uptick in the first half of the current year and gave rise to increased global supply pressures for most of the period. In the latter part of the year, however, demand plateaued slightly as global kraft paper supply increased, and inventories started to return to more normalized levels.

Fibre Supply

Continuing fibre cost pressures combined with declining outlook for long-term economic fibre availability drive right-sizing of operating footprint

Over the last few years, like other central and northern BC Interior pulp producers, the Company's supply of sawmill residual chips has been significantly reduced, primarily driven by extensive permanent sawmill curtailments and closures 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 as well as higher transportation costs.

The Company has taken a number of actions in response to these fibre constraints, including securing additional fibre supply, prioritizing discretionary capital spend on optimizing fibre procurement and maximizing fibre utilization and recovery. However, there remains significant uncertainty with regards to the future of economically viable fibre within BC and it is expected that the long-term aggregate available chip supply will continue to decline.

As a result, subsequent to year-end, the Company announced the restructuring of its BC operating footprint to align its manufacturing capacity with the long-term supply of economic residual fibre with the permanent closure of the pulp line at PG.

In recognizing this permanent closure, combined with the ongoing challenges to the business posed by fibre availability and costs, the Company recorded an asset write-down and impairment charge totaling $49.6 million in its results for the year ended December 31, 2022.

Capital and Operations Review

Balance sheet remains solid, despite challenging operating performance

From an operational perspective, 2022 was an extremely challenging year for the Company, as supply chain and fibre-related headwinds were combined with capital and maintenance outages, which together, resulted in pulp production for the year of 718,000 tonnes, down 300,000 tonnes, or 29%, from the prior year.

In the first half of the year, significant transportation shortages in BC disrupted operating rates at all of the Company's pulp mills, as NBSK pulp production was limited to available transportation and the Company's Taylor mill was indefinitely curtailed. Following the completion in mid-April of the Northwood NBSK pulp mill's ("Northwood") recovery boiler number one ("RB1") capital upgrade, the Company successfully completed scheduled maintenance outages at both its Northwood and Intercontinental NBSK ("Intercon") pulp mills and saw a resultant improvement in NBSK productivity. However, in the latter part of the year, the Company's supply of sawmill residual chips came under significant pressure, mostly as a result of market-driven temporary sawmill curtailments in the BC Interior, and when combined with winter weather conditions, placed a considerable strain on the operating performance of the Company's pulp mills. In addition, as a result of these fibre constraints, the Company took temporary production curtailments at its Intercon pulp mill in the fourth quarter of 2022, which continued through January 2023. Combined, these factors reduced NBSK pulp production by approximately 300,000 tonnes and BCTMP production by 210,000 tonnes in 2022.

Capital spending in 2022 totaled $112.6 million and was principally comprised of Northwood's RB1 lower furnace replacement early in the year, combined with maintenance-of-business capital spending.

Notwithstanding the aforementioned permanent closure that will occur in the first quarter of 2023, looking forward the Company is focused on optimizing its smaller but sustainable operating footprint, improving operational reliability and closely managing its manufacturing and fibre costs, and anticipates capital spending in 2023 to be focused on these objectives.

Environmental, Social and Governance ("ESG") Strategy, Reporting and Related Risks

One of CPPI's primary objectives is to be the leading global supplier of sustainable pulp and paper products. As a Company that uses a renewable resource to produce sustainable products, it is part of the climate change solution and the circular economy. The Company's vision of creating a future as sustainable as the forests is grounded in a deep respect for the people the business touches, the products it creates and the planet it relies on to thrive.

In 2021, as part of this leading role, the Company launched its updated sustainability strategy and Sustainability Report. In 2022, the Company announced its climate ambition to be a net-zero company by 2050 through advancing climate-positive forest management, producing sustainable forest products and developing impactful partnerships. In the 2022 Sustainability Report, the Company will share its continued advancement of its sustainability strategy. The Company will further evolve its ESG reporting by providing increasing transparency and disclosure, including defining additional goals and targets for its ESG material topics.

The Company is actively monitoring the changing landscape of ESG reporting regulations and continues to align disclosures with the Global Reporting Initiative ("GRI"), the recommendations from the Task Force on Climate-Related Financial Disclosures ("TCFD") and with the standards of the Sustainability Accounting Standards Board ("SASB").

More detailed information on the Company's sustainability strategy and performance is provided in the annual Sustainability Report (to be issued in the second quarter of 2023) and at https://sustainability.canfor.com.

Furthermore, the Company is subject to risks related to ESG topics, including climate change and environmental issues. Climate change risks include physical risks resulting from adverse events brought on by both natural and human-made disasters, including, but not limited to, severe weather conditions, forest fires, hurricanes, earthquakes and timber diseases and infestations. The Company is also subject to transition risks associated with climate change including changes in laws, regulations and industry standards. There also may be reputation risks due to rising prominence of ESG concerns among the Company's stakeholders and Indigenous partners. These concerns could influence public opinions about the Company and the broader industry and could adversely affect its reputation, business, strategy and operations. The Company is also subject to a wide range of general and industry-specific regulations related to protection of the environment.

The Company has published several goals and targets as part of its sustainability strategy. There is a risk that these goals and targets may not be met or not be achieved within expected time periods, that some or all of the expected opportunities may fail to materialize, result in increased capital expenditures or other costs to our operations. This may be due to events and circumstances, such as, but not limited to: general global economic, market and business conditions; pricing, supply, demand for our products; governmental and regulatory requirements and actions; ability to access capital; commercial viability and scalability of emission reduction strategies and technology; impacts from natural disturbances and extreme weather conditions.

The risks and uncertainties the Company faces associated with climate change and the environment are discussed further under "Climate Change" and "Environmental Issues" in the "Risks and Uncertainties" section of this document.

OVERVIEW OF CONSOLIDATED RESULTS – 2022 COMPARED TO 2021

Selected Financial Information and Statistics

(millions of Canadian dollars, except for per share amounts)		2022		2021
Sales	**$**	**1,085.6**	$	1,144.9
Operating income before amortization, asset write-down and impairment[3,4]	**$**	**41.4**	$	116.8
Operating loss	**$**	**(106.0)**	$	(65.5)
Adjusted operating income before amortization, asset write-down and impairment[3,4,5]	**$**	**39.2**	$	119.2
Adjusted operating income (loss)[5]	**$**	**(58.6)**	$	31.9
Net loss	**$**	**(79.1)**	$	(44.4)
Net loss per share, basic and diluted	**$**	**(1.21)**	$	(0.68)
Adjusted net income (loss)[5]	**$**	**(42.9)**	$	25.0
Adjusted net income (loss) per share, basic and diluted[5]	**$**	**(0.66)**	$	0.38
ROIC – Consolidated[5]		**(16.3)%**		(7.6)%
Average exchange rate (US$ per Cdn$1.00)[6]	**$**	**0.768**	$	0.798

[3] Amortization includes amortization of certain capitalized major maintenance costs.
[4] Adjusted for an asset write-down and impairment charge totaling $49.6 million in 2022 ($95.0 million in 2021).
[5] Adjusted results and consolidated ROIC are non-IFRS financial measures. Refer to the "Non-IFRS Financial Measures" section for further details.
[6] Source – Bank of Canada (monthly average rate for the period).

Selected Cash Flow Information

(millions of Canadian dollars)		2022		2021
Operating income (loss) by segment:				
Pulp	**$**	**(110.9)**	$	(55.8)
Paper	**$**	**18.2**	$	4.3
Unallocated	**$**	**(13.3)**	$	(14.0)
Total operating income (loss)	**$**	**(106.0)**	$	(65.5)
Add: Amortization[7]	**$**	**97.8**	$	87.3
Add: Asset write-down and impairment	**$**	**49.6**	$	95.0
Total operating income before amortization, asset write-down and impairment	**$**	**41.4**	$	116.8
Add (deduct):				
Working capital movements	**$**	**3.9**	$	(3.9)
Defined benefit plan contributions, net	**$**	**(3.3)**	$	(3.5)
Income taxes received (paid), net	**$**	**(3.6)**	$	26.0
Other operating cash flows, net	**$**	**6.9**	$	13.5
Cash from operating activities	**$**	**45.3**	$	148.9
Add (deduct):				
Capital additions, net	**$**	**(112.6)**	$	(78.7)
Other, net	**$**	**(6.3)**	$	(3.7)
Change in cash / operating loans	**$**	**(73.6)**	$	66.5

[7] Amortization includes amortization of certain capitalized major maintenance costs.

Analysis of Specific Items Affecting Comparability of Net Income (Loss)

After-tax impact (millions of Canadian dollars, except for per share amounts)		2022		2021
Net loss, as reported	**$**	**(79.1)**	$	(44.4)
Asset write-down and impairment	**$**	**36.2**	$	69.4
Adjusted net income (loss)[8]	**$**	**(42.9)**	$	25.0
Net loss per share (EPS), as reported	**$**	**(1.21)**	$	(0.68)
Net impact of above items per share	**$**	**0.55**	$	1.06
Adjusted net income (loss) per share[8]	**$**	**(0.66)**	$	0.38

[8] Adjusted net income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

OPERATING RESULTS BY BUSINESS SEGMENT – 2022 COMPARED TO 2021

The following discussion of CPPI's operating results relates to the operating segments and the non-segmented items as per the Segment Information note in the Company's consolidated financial statements.

CPPI's operations include the Pulp and Paper segments.

Pulp

Selected Financial Information and Statistics – Pulp

Summarized results for the Pulp segment for 2022 and 2021 are as follows:

(millions of Canadian dollars, unless otherwise noted)		2022		2021
Sales	**$**	**888.7**	$	984.7
Operating income before amortization, asset write-down and impairment[9]	**$**	**34.4**	$	123.9
Operating loss	**$**	**(110.9)**	$	(55.8)
Asset write-down and impairment	**$**	**49.6**	$	95.0
Inventory write-down (recovery)	**$**	**(2.2)**	$	2.4
Adjusted operating income (loss)[10]	**$**	**(63.5)**	$	41.6
Capital expenditures	**$**	**110.0**	$	76.3
Average NBSK pulp price delivered to China – US$[11]	**$**	**949**	$	850
Average NBSK pulp price delivered to China – Cdn$[11]	**$**	**1,236**	$	1,065
Production – pulp (000 mt)		**718**		1,018
Shipments – pulp (000 mt)		**750**		1,007

[9] Amortization includes amortization of certain capitalized major maintenance costs.
[10] Adjusted operating income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[11] 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

As previously highlighted, global pulp market conditions were very strong throughout most of 2022. The upward pricing momentum experienced in the latter part of 2021 continued into the first half of 2022, as global pulp markets tightened significantly, primarily driven by global transportation challenges, inflationary cost pressures as well as unplanned global production outages. Towards the end of the year, however, market fundamentals came under pressure as a moderation in purchasing activity from China was combined with an uplift in global pulp market supply, principally reflecting the combined impact of incremental softwood supply in Europe and additional hardwood pulp capacity from South America.

As a result, NBSK pulp list prices to China reached near-record highs mid-2022, and for the 2022 year averaged US$949 per tonne, US$99 per tonne, or 12%, higher than the 2021 average price. Prices weakened somewhat, however, late in the year, in response to slowing demand and an increase in supply, ending the year at US$885 per tonne. North American pulp prices experienced similar trends to Asia with list prices to that region showing a notable improvement from US$1,450 per tonne in January to a peak of US$1,805 per tonne mid-2022, before declining to US$1,720 per tonne in December (before taking account of customer discounts, which were broadly unchanged year-over-year).

Global softwood pulp producer inventories started 2022 at 43 days of supply, and continued to increase through the first quarter of 2022, as supply chain delays and congestion led to longer delivery times for pulp buyers, contributing to lean consumer inventories and ongoing pricing pressure. As the year progressed, these conditions continued and global softwood pulp inventories stayed at the high end of the balanced range, ending the year at 43 days of supply. Market conditions are generally considered balanced when inventories are in the 32-43 days of supply range.

Sales

The Company's pulp shipments in 2022 were 750,000 tonnes, down 257,000 tonnes, or 26%, from 2021, principally reflecting a 29% reduction in pulp production year-over-year, offset in part by a drawdown in pulp inventory at the end of 2022.

As mentioned, for the 2022 year as a whole, NBSK pulp list prices to China averaged at near-record highs at US$949 per tonne, up US$99 per tonne, or 12%, compared to 2021. North American NBSK pulp list prices averaged US$1,704 per tonne for the current year, up US$226 per tonne, or 15%, year-over-year (before discounts, which were largely unchanged). Accordingly, average NBSK pulp unit sales realizations experienced a significant increase compared to 2021, amplified in part by a 3 cent, or 4%, weaker Canadian dollar.

Energy revenues in 2022 were significantly down compared to the prior year as reduced pulp production led to a decline in turbine operating days year-over-year.

Operations

As previously mentioned, from an operational perspective, 2022 was an extremely challenging year for the Company, as supply chain and fibre-related headwinds were combined with capital and maintenance outages, which together, resulted in pulp production for the year of 718,000 tonnes, down 300,000 tonnes, or 29%, from the prior year.

In the first half of the year, significant transportation shortages in BC disrupted operating rates at all of the Company's pulp mills, as NBSK pulp production was limited to available transportation and the Company's Taylor mill was indefinitely curtailed. Following the completion in mid-April of Northwood's RB1 capital upgrade, the Company successfully completed scheduled maintenance outages at both Northwood and Intercon and saw a resultant improvement in NBSK productivity. However, in the latter part of the year, the Company's supply of sawmill residual chips came under significant pressure, mostly as a result of market-driven temporary sawmill curtailments in the BC Interior, and when combined with winter weather conditions, placed a considerable strain on the operating performance of the Company's pulp mills. In addition, as a result of these fibre constraints, the Company took temporary production curtailments at its Intercon pulp mill in the fourth quarter of 2022, which continued through January 2023. Combined, these factors reduced NBSK pulp production by approximately 300,000 tonnes and BCTMP production by 210,000 tonnes in 2022.

In 2021, pulp production was most notably impacted by wildfires, flooding and intense cold which interrupted productivity at all of the Company's pulp mills and contributed to transportation-related production curtailments at Northwood and Taylor. When combined with the commencement of Northwood's RB1 lower furnace replacement late in 2021, as well as scheduled outages at the Company's Intercon, PG and Taylor pulp mills, pulp production in the prior year was reduced by approximately 195,000 tonnes.

Pulp unit manufacturing costs were substantially higher compared to the prior year, principally reflecting higher fibre costs, combined with an increase in pulp unit conversion costs associated with lower year-over-year production, as well as higher chemical and energy costs. The increase in fibre costs compared to 2021 largely reflected higher market-based prices for sawmill residuals (linked to higher Canadian NBSK pulp prices), and, to a lesser extent, an uplift in fibre transportation costs.

Asset Write-Down and Impairment

In 2022, the Company recorded an asset write-down and impairment charge totaling $49.6 million (2021 – $95.0 million), driven by the announced permanent closure of the Company's pulp line at PG combined with ongoing pressure on fibre costs and continued uncertainty surrounding fibre availability for the Company's pulp mills. See "Critical Accounting Estimates – Asset Write-Down and Impairment" for further details.

Paper

Selected Financial Information and Statistics – Paper

Summarized results for the Paper segment for 2022 and 2021 are as follows:

(millions of Canadian dollars, unless otherwise noted)		2022		2021
Sales	**$**	**196.9**	$	160.2
Operating income before amortization[12]	**$**	**20.2**	$	6.8
Operating income	**$**	**18.2**	$	4.3
Capital expenditures	**$**	**0.6**	$	0.4
Production – paper (000 mt)		**132**		126
Shipments – paper (000 mt)		**129**		127

[12] Amortization includes amortization of certain capitalized major maintenance costs.

Markets

As mentioned, the post pandemic demand for food grade kraft paper products and home building supplies packaged in kraft paper remained strong throughout most of 2022, particularly in North America. Demand in offshore markets, that had been lagging North America, experienced an uptick in the first half of the current year and gave rise to increased global supply pressures for most of the period. In the latter part of the year, however, demand plateaued slightly as global kraft paper supply increased, and inventories started to return to more normalized levels.

Sales

The Company's paper shipments in 2022, at 129,000 tonnes, were broadly comparable to 2021. Paper unit sales realizations for the current year experienced a significant increase compared to the prior year, reflecting a notable improvement in US-dollar kraft paper prices throughout most of 2022 combined with the 4% weaker Canadian dollar.

Operations

Paper production in 2022 was 132,000 tonnes, up 6,000 tonnes, from 2021, principally reflecting a slight improvement in operating rates as well as the favourable impact on paper production of no scheduled maintenance outage in 2022. In 2021, a scheduled maintenance outage reduced paper production by approximately 5,000 tonnes. Notably higher paper unit manufacturing costs in 2022 were primarily due to a significant increase in slush pulp costs (linked to higher Canadian dollar NBSK pulp market prices), and, to a lesser degree, higher chemical costs in 2022.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)		2022		2021
Corporate costs	**$**	**(13.3)**	$	(14.0)
Finance expense, net	**$**	**(7.3)**	$	(5.0)
Other income, net	**$**	**5.0**	$	9.5

Corporate Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were $13.3 million in 2022, down $0.7 million from 2021, following the return to more normalized levels of head office and general and administrative expenses in the prior year.

Finance Expense, Net

Net finance expense for 2022 was $7.3 million, up $2.3 million from 2021. The increase principally reflected higher financing fees associated with letters of credit, and an uplift in interest expense associated with the Company's term debt, as well as amounts drawn on the Company's operating loan facility.

Other Income, Net

Other income, net, of $5.0 million for 2022 primarily reflected favorable foreign exchange movements on US-dollar denominated working capital balances. In 2021, other income, net, of $9.5 million was principally comprised of insurance proceeds of $8.8 million, and to a lesser extent, favorable foreign exchange movements on US-dollar denominated working capital balances.

Income Tax Recovery

The Company recorded an income tax recovery of $29.2 million in 2022 with an overall effective tax rate of 27%.

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

(millions of Canadian dollars)		2022		2021
Net loss before income taxes	$	(108.3)	$	(61.0)
Income tax recovery at statutory rate of 27% (2021 – 27%)	$	29.2	$	16.5
Add (deduct):				
Entities with different income tax rates and other tax adjustments		-		0.1
Income tax recovery	$	29.2	$	16.6

In addition, a tax expense of $4.3 million related to actuarial gains, net, on the Company's defined benefit plans was recorded in other comprehensive income for the year ended December 31, 2022 (December 31, 2021 – expense of $2.5 million).

Other Comprehensive Income

CPPI measures its accrued retirement benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Any actuarial gains or losses which arise are recognized immediately by means of a credit or charge through other comprehensive income.

For 2022, a gain of $15.8 million (before tax) was recorded in other comprehensive income, 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), largely reflecting a 1.8% increase in the discount rate used to value the defined benefit plans, offset in part by a lower than anticipated return on plan assets.

For 2021, a gain of $9.4 million (before tax) was recorded in other comprehensive income, 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), largely reflecting a 0.3% increase in the discount rate used to value the defined benefit plans, and to a lesser extent, a higher than anticipated return on plan assets.

As at December 31, 2022, the Company's registered defined benefit pension plan held $61.8 million of buy-in annuities purchased prior to 2019. Buy-in annuity contracts substantially mitigate the exposure to future volatility in pension plan obligations, as future cash flows from the annuities match the amount and timing of benefits payable under the plan. Subsequent to 2019, no buy-in annuities were purchased by the Company for this plan.

On December 31, 2022, the Company entered into contracts to convert all of its existing buy-in annuities to buy-out annuities. As a result of these contracts, the Company's buy-in annuity assets and corresponding accrued benefit obligation of $61.8 million were derecognized from the Company's consolidated balance sheet as at December 31, 2022.

For more information, see the "Employee Future Benefits" part of the "Critical Accounting Estimates" section later in this report.

SUMMARY OF FINANCIAL POSITION

The following table summarizes CPPI's financial position as at December 31, 2022 and 2021:

(millions of Canadian dollars, except for ratios)	2022	2021
Cash and cash equivalents	**$ 14.7**	$ 73.3
Operating working capital (includes drawings on operating loan)	**133.7**	147.9
Net working capital	**148.4**	221.2
Property, plant and equipment and intangible assets	**431.4**	464.8
Other long-term assets	**10.2**	4.8
Net working capital and long-term assets	**$ 590.0**	$ 690.8
Term debt	**50.0**	50.0
Long-term lease obligations	**1.9**	2.1
Retirement benefit obligations	**48.4**	62.9
Other long-term provisions	**6.9**	7.0
Deferred income taxes, net	**55.4**	73.8
Total equity	**427.4**	495.0
	$ 590.0	$ 690.8
Ratio of current assets to current liabilities	**1.9 : 1**	2.5 : 1
Net debt (cash) to total capitalization[13]	**10.5%**	(4.9)%

[13] Net debt (cash) to total capitalization is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

Reflecting 2022's market conditions, operating rates, as well as the Company's management of working capital, the ratio of current assets to current liabilities at the end of 2022 was 1.9:1, compared to 2.5:1 at the end of 2021. See further discussion in "Changes in Financial Position" section.

The Company's net debt to capitalization was 10.5% at December 31, 2022 (December 31, 2021 – net cash to capitalization of 4.9%) reflecting lower operating earnings combined with increased capital spending compared to the prior period, driven in part by Northwood's RB1 lower furnace upgrade.

CHANGES IN FINANCIAL POSITION

At the end of 2022, CPPI had $14.7 million of cash and cash equivalents.

(millions of Canadian dollars)	2022	2021
Increase (decrease) in cash and cash equivalents	**$ (58.6)**	$ 66.5
Operating activities	**$ 45.3**	$ 148.9
Financing activities	**$ 8.3**	$ (4.3)
Investing activities	**$ (112.2)**	$ (78.1)

The changes in the components of these cash flows during 2022 are discussed in the following sections.

Operating Activities

For the 2022 year, CPPI generated cash from operating activities of $45.3 million, down $103.6 million from cash generated of $148.9 million in the previous year. The decline in operating cash flows was principally due to materially lower cash earnings in the current year, combined with tax instalment payments in the current year (compared to the receipt of income tax refunds in the prior year), offset in part by favourable movements in non-cash working capital. The latter primarily reflecting a drawdown of finished pulp inventory at the end of 2022.

Financing Activities

In 2022, CPPI generated cash from financing activities of $8.3 million, compared to cash used of $4.3 million in the prior year. Financing activities in 2022 comprised a $15.0 million draw-down of the Company's operating loan facility, partially offset by interest paid on the Company's letters of credit, operating loan facility and non-revolving term debt. Financing activities in 2021 principally related to interest paid on the Company's letters of credit, operating loan facility and non-revolving term debt.

Investing Activities

Net cash used for investing activities in 2022 was $112.2 million, compared to $78.1 million used in 2021. Capital expenditures of $112.6 million in 2022 principally comprised of Northwood's RB1 lower furnace capital upgrade early in the year combined with capital spending on maintenance-of-business projects.

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loan and Term Debt

At December 31, 2022, the Company had a $110.0 million unsecured operating loan facility, with $15.0 million of the facility drawn, and $12.9 million reserved for several standby letters of credit, leaving $82.1 million available and undrawn on its operating loan facility at the end of the year.

On November 1, 2022, the Company extended the maturity date of its committed operating loan facility from December 15, 2025 to November 1, 2026.

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, 2022, the Company was fully in compliance with all covenants relating to its operating loan facility.

On November 1, 2022, the Company extended the maturity date of its $50.0 million non-revolving term debt from December 15, 2024 to November 1, 2025. Interest on the Company's term debt is based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin. The non-revolving term loan covenants are consistent with the Company's existing operating loan facility. As at December 31, 2022, the Company was fully in compliance with all covenants relating to its term debt.

As at December 31, 2022, the Company had total net debt of $50.3 million, a $73.6 million decline from net cash of $23.3 million at the end of the previous year. Available liquidity of $96.8 million decreased by $73.6 million during 2022.

Debt Covenants

CPPI has certain financial covenants on its debt obligations that stipulate a maximum debt to total capitalization ratio. The debt to total capitalization is calculated by dividing total debt by shareholders' equity plus total debt.

In circumstances when debt to total capitalization exceeds a threshold, CPPI is subject to an interest coverage ratio that requires a minimum amount of earnings before interest, taxes, depreciation and amortization relative to net interest expense. CPPI is not currently subject to this test.

Provisions contained in CPPI's long-term borrowing agreements also limit the amount of indebtedness that the Company may incur and the amount of dividends it may pay on its common shares. The amount of dividends the Company is permitted to pay under its long-term borrowing agreements is determined by reference to consolidated net earnings less certain restricted payments.

Management reviews results and forecasts to monitor the Company's compliance with these covenant requirements. CPPI was fully in compliance with all of its debt covenants for the year ended December 31, 2022 and expects to remain so for the foreseeable future.

Shares Outstanding

As at December 31, 2022 and February 28, 2023 there were 65,233,559 common shares of the Company outstanding, and Canfor's ownership interest in CPPI was 54.8% (December 31, 2021 – 54.8%).

2023 Projected Capital Spending and Debt Repayments

Based on its current outlook, the Company anticipates that it will invest approximately $70 million in capital projects in 2023 (including costs related to scheduled maintenance outages), with a primary focus on projects aimed at optimizing the sustainable operating footprint and reliability of its operations. The Company currently plans to utilize its cash flow from operations and its available cash and operating loans to finance its capital expenditures during 2023.

Commitments

Contractual obligations the Company is committed to include:

- At December 31, 2022, CPPI has contractual commitments for $24.4 million. The majority of these commitments are expected to be settled between one and two years. In addition, CPPI has committed to leases of property, plant and equipment as outlined under Note 6 of CPPI's 2022 consolidated financial statements.
- The Company has energy purchase agreements with a BC energy company (the "Energy Agreements") for all three of the Company's kraft pulp mills. Two of these agreements are for the sale of incremental electrical energy and the third agreement is for load displacement. One of these Energy Agreements included incentive funding from a BC energy company to support capital investments for a turbo generator. All agreements include performance guarantees to ensure minimum contractual amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, the Company has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2022 the Company had posted $2.2 million of standby letters of credit under these agreements and had no repayment obligations under the terms of any of these agreements.
- The Company's asset retirement obligations represent estimated undiscounted future payments of $9.3 million to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur at periods ranging from 3 to 29 years and have been discounted at risk-free rates ranging from 3.3% to 3.8%. CPPI has certain assets that have indeterminable retirement dates and, therefore, there is an indeterminate settlement date for the related asset retirement obligations. As a result, no asset retirement obligations are recorded for these assets. These assets include wastewater and effluent ponds that will have to be drained once the related operating facility is closed and storage sites for which removal of chemicals, fuels and other related materials will be required once the related operating facility is closed. When the retirement dates of these assets become determinable and an estimate can be made, an asset retirement obligation will be recorded.
- It is possible that changes in future conditions could require a material change in the recognized amount of the asset retirement obligations. The asset retirement obligations balance is included in 'Other long-term provisions' on CPPI's 2022 consolidated balance sheet.
- Obligations to pay defined benefit pension plans and other post-employment benefits, for which a net liability for accounting purposes at December 31, 2022 was $48.4 million. As at December 31, 2022, CPPI estimated that it would make contribution payments of $2.2 million to its defined benefit pension plans in 2023 based on the last actuarial valuation for funding purposes.
- Purchase and contractual obligations in the normal course of business. Purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on the Company's requirements in any given year.

TRANSACTIONS WITH RELATED PARTIES

The Company undertakes transactions with various related entities. These transactions are in the normal course of business and are generally on similar terms as those accorded to unrelated third parties, except where noted otherwise.

In 2022, the Company depended on Canfor to provide approximately 64% 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 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.

The Company purchased wood chips, logs and hog fuel from Canfor sawmills in the amount of $154.2 million in 2022.

Canfor provides certain business and administrative services to the Company under a services agreement. The total amount charged for the services provided by Canfor in 2022 was $24.7 million. This amount is included in 'Manufacturing and product costs', 'Selling and administration costs', and 'Finance expense, net' within CPPI's 2022 consolidated financial statements.

CPPI provides certain business and administrative services to Canfor under an incidental services agreement. The total amount charged for the services provided to Canfor in 2022 was $2.8 million. This amount is included as a cost recovery in 'Manufacturing and product costs' and 'Selling and administration costs.' At December 31, 2022, an outstanding balance of $19.0 million was owed to Canfor.

The Jim Pattison Group is Canfor's largest shareholder with an ownership interest of 52.6% at December 31, 2022. During 2022, CPPI sold paper to subsidiaries owned by The Jim Pattison Group totaling $2.5 million. CPPI also made purchases from subsidiaries owned by The Jim Pattison Group totaling $0.5 million. At December 31, 2022, an outstanding balance of $0.1 million was owed from subsidiaries owned by the Jim Pattison Group.

Additional details on related party transactions are contained in Note 17 to CPPI's 2022 consolidated financial statements.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 268.1**	**$ 308.3**	**$ 288.9**	**$ 220.3**	$ 249.3	$ 298.9	$ 334.3	$ 262.4
Operating income (loss) before amortization, asset write-down and impairment[14]	**$ (15.1)**	**$ 46.7**	**$ 15.7**	**$ (5.9)**	$ (19.6)	$ 37.8	$ 72.9	$ 25.7
Operating income (loss)	**$ (91.1)**	**$ 19.2**	**$ (8.1)**	**$ (26.0)**	$ (137.2)	$ 15.8	$ 51.0	$ 4.9
Net income (loss)	**$ (69.8)**	**$ 16.3**	**$ (5.7)**	**$ (19.9)**	$ (101.1)	$ 12.1	$ 36.2	$ 8.4
Per common share (Canadian dollars)								
Net income (loss) – basic and diluted	**$ (1.07)**	**$ 0.25**	**$ (0.09)**	**$ (0.31)**	$ (1.55)	$ 0.19	$ 0.55	$ 0.13
Book value[15]	**$ 6.55**	**$ 7.65**	**$ 7.43**	**$ 7.39**	$ 7.59	$ 9.09	$ 8.89	$ 8.37
Statistics								
Pulp shipments (000 mt)	**170**	**199**	**205**	**176**	216	241	285	265
Paper shipments (000 mt)	**32**	**32**	**34**	**31**	27	34	30	37
Average exchange rate – US$/Cdn$	**$ 0.736**	**$ 0.766**	**$ 0.783**	**$ 0.790**	$ 0.794	$ 0.794	$ 0.814	$ 0.790
Average NBSK pulp list price delivered to China (US$)	**$ 920**	**$ 969**	**$ 1,008**	**$ 899**	$ 723	$ 832	$ 962	$ 883

[14] 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.

[15] 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.

Sales are primarily influenced by changes in market pulp prices, sales volumes 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 operating rates and 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.

(millions of Canadian dollars)	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Operating income (loss) by segment:								
Pulp	**$ (89.1)**	**$ 18.6**	**$ (11.1)**	**$ (29.3)**	$ (135.2)	$ 22.1	$ 53.6	$ 3.7
Paper	**$ 1.9**	**$ 4.1**	**$ 6.2**	**$ 6.0**	$ 1.7	$ (2.5)	$ 0.9	$ 4.2
Unallocated	**$ (3.9)**	**$ (3.5)**	**$ (3.2)**	**$ (2.7)**	$ (3.7)	$ (3.8)	$ (3.5)	$ (3.0)
Total operating income (loss)	**$ (91.1)**	**$ 19.2**	**$ (8.1)**	**$ (26.0)**	$ (137.2)	$ 15.8	$ 51.0	$ 4.9
Add: Amortization[16]	**$ 26.4**	**$ 27.5**	**$ 23.8**	**$ 20.1**	$ 22.6	$ 22.0	$ 21.9	$ 20.8
Add: Asset write-down and impairment	**$ 49.6**	**$ -**	**$ -**	**$ -**	$ 95.0	$ -	$ -	$ -
Total operating income (loss) before amortization, asset write-down and impairment	**$ (15.1)**	**$ 46.7**	**$ 15.7**	**$ (5.9)**	$ (19.6)	$ 37.8	$ 72.9	$ 25.7
Add (deduct):								
Working capital movements	**$ 56.6**	**$ (39.1)**	**$ 18.0**	**$ (31.6)**	$ 50.6	$ (28.3)	$ (11.0)	$ (15.2)
Defined benefit pension plan contributions	**$ (0.7)**	**$ (0.9)**	**$ (0.7)**	**$ (1.0)**	$ (0.6)	$ (0.9)	$ (0.9)	$ (1.1)
Income taxes received (paid), net	**$ -**	**$ (0.4)**	**$ (1.0)**	**$ (2.2)**	$ 3.3	$ 22.7	$ 0.3	$ (0.3)
Other operating cash flows, net	**$ (2.2)**	**$ 6.5**	**$ 1.9**	**$ 0.7**	$ 1.1	$ 3.3	$ 0.9	$ 8.2
Cash from (used in) operating activities	**$ 38.6**	**$ 12.8**	**$ 33.9**	**$ (40.0)**	$ 34.8	$ 34.6	$ 62.2	$ 17.3
Add (deduct):								
Capital additions, net	**$ (28.0)**	**$ (28.5)**	**$ (37.7)**	**$ (18.4)**	$ (16.0)	$ (14.3)	$ (15.4)	$ (33.0)
Other, net	**$ (2.4)**	**$ (1.9)**	**$ (1.3)**	**$ (0.7)**	$ (1.2)	$ (0.7)	$ (0.9)	$ (0.9)
Change in cash / operating loans	**$ 8.2**	**$ (17.6)**	**$ (5.1)**	**$ (59.1)**	$ 17.6	$ 19.6	$ 45.9	$ (16.6)

[16] Amortization includes amortization of certain capitalized major maintenance costs.

THREE-YEAR COMPARATIVE REVIEW

(millions of Canadian dollars, except per share amounts)	2022	2021	2020
Sales	**$ 1,085.6**	$ 1,144.9	$ 990.5
Net loss	**$ (79.1)**	$ (44.4)	$ (22.4)
Total assets	**$ 756.0**	$ 841.7	$ 920.8
Term debt	**$ 50.0**	$ 50.0	$ 50.0
Net loss per share, basic and diluted	**$ (1.21)**	$ (0.68)	$ (0.34)

FOURTH QUARTER RESULTS
Overview

For the fourth quarter of 2022, the Company reported an operating loss of $91.1 million. After taking account of adjusting items, largely comprised of an asset write-down and impairment, the Company's operating loss for the fourth quarter of 2022 was $42.0 million. These results compare to an adjusted operating income of $18.1 million for the previous quarter and an adjusted operating loss of $41.1 million for the fourth quarter of 2021.

An overview of the results by business segment for the fourth quarter of 2022 compared to the third quarter of 2022 and the fourth quarter of 2021 follows.

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	**Q4 2022**	Q3 2022	Q4 2021
Sales	**$ 216.6**	$ 258.9	$ 212.4
Operating income (loss) before amortization, asset write-down and impairment[17]	**$ (13.6)**	$ 45.5	$ (18.1)
Operating income (loss)	**$ (89.1)**	$ 18.6	$ (135.2)
Asset write-down and impairment	**$ 49.6**	$ -	$ 95.0
Inventory write-down (recovery)	**$ (0.5)**	$ (1.1)	$ 1.1
Adjusted operating income (loss)[18]	**$ (40.0)**	$ 17.5	$ (39.1)
Average NBSK pulp price delivered to China – US$[19]	**$ 920**	$ 969	$ 723
Average NBSK pulp price delivered to China – Cdn$[19]	**$ 1,250**	$ 1,265	$ 911
Production – pulp (000 mt)	**160**	195	190
Shipments – pulp (000 mt)	**170**	199	216

[17] Amortization includes amortization of certain capitalized major maintenance costs.
[18] Adjusted operating income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[19] 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

Following the strong global pulp market conditions experienced mid-year, market fundamentals came under modest pressure in the current quarter, as a decline in demand and purchasing activity, particularly from Asian markets, as well as an uptick in global pulp market supply, primarily from Europe and South America.

Average US-dollar NBSK pulp list prices to China were US$920 per tonne during the current quarter, down US$49 per tonne, or 5%, from the previous quarter but up US$197 per tonne, or 27%, compared to fourth quarter of 2021. Prices to other global regions experienced more modest declines in the current period, with the average US-dollar NBSK pulp list price to North America at US$1,745 per tonne (before discounts), down US$55 per tonne, or 3%, from the prior quarter and up US$273 per tonne, or 19% compared to the same period in the prior year.

Global softwood pulp producer inventories at the end of December 2022 remained on the high end of the balanced range at 43 days of supply, a one day increase from September 2022. Market conditions are generally considered balanced when inventories are in the 32-43 days of supply range.

Sales

The Company's pulp shipments for the fourth quarter of 2022 totaled 170,000 tonnes, down 29,000 tonnes, or 15%, from the previous quarter, principally due to an 18% reduction in pulp production, offset in part by a drawdown of inventory in the current quarter during the Intercon fibre-related curtailment at the end of the year. Compared to the fourth quarter of 2021, pulp shipments were down 46,000 tonnes, or 21%, primarily reflecting the 16% reduction in pulp production in the current period, and, to a lesser extent, the timing of vessels versus the prior quarter.

The Company's average NBSK pulp unit sales realizations were broadly in line with the prior quarter, as a 5% decrease in US-dollar NBSK pulp list prices to China was offset by a 3 cent, or 4%, weaker Canadian dollar. Compared to the fourth quarter of 2021, the Company's average NBSK pulp unit sales realizations saw a substantial increase, as a notable uptick in global US-dollar pulp list pricing quarter-over-quarter was combined with a 6 cent, or 7%, weaker Canadian dollar.

Energy revenues decreased significantly compared to both comparative periods, principally driven by the quarter-over-quarter decline in pulp production and the correlated impact on energy generation.

Operations

Pulp production was 160,000 tonnes for the fourth quarter of 2022, down 35,000 tonnes, or 18%, from the third quarter of 2022, largely reflecting the quarter-over-quarter impact of downtime.

The current quarter was a challenging period for the Company's pulp mills, as a shortage of economic fibre, combined with winter conditions in BC, significantly impacted operating performance and consequently pulp production, particularly at Intercon and Northwood. Pulp production in the current period also reflected the completion in mid-October of a scheduled maintenance outage at Intercon, as well as ongoing downtime at Taylor, which commenced in the first quarter of 2022 and continued through the balance of the year. Combined, these factors reduced current quarter NBSK pulp production by approximately 90,000 tonnes and BCTMP production by 60,000 tonnes. As a result of a reduction in the long-term supply of fibre in the Peace region, the Company does not see a path forward to restarting the Taylor mill at this time and is exploring alternative uses for the site.

In the third quarter of 2022, following the completion of capital-related downtime in the first half of 2022, NBSK pulp productivity steadily improved. However, NBSK pulp production was limited to available transportation, and reduced by the completion of Northwood's scheduled maintenance outage (approximately 16,000 tonnes) as well as the commencement of Intercon's planned maintenance downtime (approximately 6,000 tonnes). Concurrently, downtime at Taylor reduced production by approximately 60,000 tonnes.

Compared to the fourth quarter of 2021, pulp production was down 30,000 tonnes, or 16%, reflecting an increase in downtime in the current quarter. In the comparative 2021 period, unprecedented flooding resulted in material transportation-related downtime at Northwood and Taylor. Production at Northwood was also impacted by the extended outage on one production line from December to enable the replacement of the lower furnace of RB1. Combined, these factors reduced NBSK pulp production in the fourth quarter of 2021 by approximately 100,000 tonnes and BCTMP production by 20,000 tonnes.

Pulp unit manufacturing costs experienced a significant increase compared to the prior quarter, principally reflecting reduced production in the current period, combined with a notable uplift in energy pricing, higher maintenance spend and, to a lesser extent, an increase in fibre costs. The higher fibre costs were primarily driven by a larger proportion of higher-cost whole log chips as a result of sawmill curtailments in the current quarter. Compared to the fourth quarter of 2021, pulp unit manufacturing costs were substantially higher, mostly attributable to lower production combined with market-related increases in fibre costs as well as higher energy and chemical costs in the current quarter.

Asset Write-Down and Impairment

An asset write-down and impairment charge totaling $49.6 million was recorded in the fourth quarter of 2022 on the property, plant and equipment for the pulp segment (results in the fourth quarter of 2021 included an impairment expense of $95.0 million). See "Critical Accounting Estimates – Asset Write-Down and Impairment" for further details.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars, unless otherwise noted)	**Q4 2022**	Q3 2022	Q4 2021
Sales	**$ 51.5**	$ 49.4	$ 36.9
Operating income before amortization[20]	**$ 2.4**	$ 4.6	$ 2.2
Operating income	**$ 1.9**	$ 4.1	$ 1.7
Production – paper (000 mt)	**32**	33	31
Shipments – paper (000 mt)	**32**	32	27

[20] Amortization includes amortization of certain capitalized major maintenance costs.

Markets

Global kraft paper markets remained steady through the fourth quarter of 2022, as solid demand and lean inventories in the North American market was offset by modest declines in offshore markets.

Sales

The Company's paper shipments in the fourth quarter of 2022 were 32,000 tonnes, broadly in line with the previous quarter, and up 5,000 tonnes from the fourth quarter of 2021, principally reflecting the timing of shipments quarter-over-quarter.

Paper unit sales realizations in the fourth quarter of 2022 were modestly higher than the previous quarter, as a slight decline in global US-dollar paper pricing in the current period was more than offset by the 4% weaker Canadian dollar. Compared to the fourth quarter of 2021, paper unit sales realizations experienced a substantial increase, primarily reflecting a notable improvement in US-dollar prices, especially to North American markets, quarter-over-quarter, combined with the 7% weaker Canadian dollar.

Operations

Paper production for the fourth quarter of 2022 was 32,000 tonnes, broadly in line with both comparative periods. Paper unit manufacturing costs were modestly higher than the third quarter of 2022, primarily reflecting an uplift in chemical costs and increased spend on operating supplies in the current period (timing-related). Slush pulp costs were broadly comparable quarter-over-quarter. Compared to the fourth quarter of 2021, paper unit manufacturing costs saw a substantial increase, driven by higher slush pulp costs (tied to increased Canadian dollar NBSK pulp unit sales realizations), as well as an increase in conversion costs quarter-over-quarter.

Unallocated Items

(millions of Canadian dollars)	**Q4 2022**	Q3 2022	Q4 2021
Corporate costs	**$ (3.9)**	$ (3.5)	$ (3.7)
Finance expense, net	**$ (2.6)**	$ (2.1)	$ (1.5)
Other income (expense), net	**$ (1.8)**	$ 5.2	$ 0.1

Corporate costs were $3.9 million for the fourth quarter of 2022, up $0.4 million from the previous quarter and broadly in line with the fourth quarter of 2021. The former variance largely reflected a slight increase in head office and general administrative expenses in the current period.

Net finance expense for the fourth quarter of 2022 was $2.6 million, up $0.5 million compared to the third quarter of 2022 and up $1.1 million compared to the fourth quarter of 2021. The increase principally related to higher financing fees associated with letters of credit and an uplift in interest expense associated with the Company's operating loan facility and non-revolving term debt in the current quarter. See section "Liquidity and Financial Requirements" for further details.

Other expense, net, of $1.8 million in the fourth quarter of 2022 was largely due to unfavourable foreign exchange movements on US-dollar denominated working capital balances at the end of the current period compared to the end of the prior quarter. Other income, net, of $5.2 million in the third quarter of 2022 and $0.1 million in the fourth quarter of 2021 principally related to favourable foreign exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income

In the fourth quarter of 2022, the Company recorded a loss of $2.5 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), primarily reflecting updated membership data.

This compared to a loss of $2.5 million (before tax) in the third quarter of 2022, largely reflecting a 0.2% decrease in the discount rate used to value the employee future benefit plans, partially offset by a higher than anticipated return on plan assets.

In the fourth quarter of 2021, the Company recorded a gain of $4.5 million (before tax) related to changes in the valuation of the Company's defined benefit plans, largely reflecting a higher than anticipated return on plan assets.

Summary of Financial Position

The following table summarizes CPPI's cash flow for the following periods:

(millions of Canadian dollars)	Q4 2022	Q3 2022	Q4 2021
Increase (decrease) in cash and cash equivalents	**$ 8.2**	$ (2.6)	$ 17.6
Operating activities	**$ 38.6**	$ 12.8	$ 34.8
Financing activities	**$ (2.6)**	$ 13.0	$ (1.3)
Investing activities	**$ (27.8)**	$ (28.4)	$ (15.9)

Operating Activities

Cash generated from operating activities in the fourth quarter of 2022 was $38.6 million, up $25.8 million from the cash generated of $12.8 million in the third quarter of 2022 and broadly comparable to the fourth quarter of 2021. The former was largely due to favourable movements in non-cash working capital, principally driven by lower accounts receivable balances at the end of the current period and a drawdown of pulp inventories quarter-over-quarter, offset in part by lower cash earnings in the current period.

Financing Activities

Cash used for financing activities in the fourth quarter of 2022 was $2.6 million, compared to cash generated from financing activities of $13.0 million in the third quarter of 2022 and mostly in line with the fourth quarter of 2021. Cash used for financing activities in the current quarter primarily related to interest expense associated with the Company's operating loan facility and non-revolving term debt, combined with financing fees associated with letters of credit. Financing activities in the third quarter of 2022 principally reflected a $15.0 million draw-down on the Company's operating loan facility, partially offset by interest expense on the Company's term debt and operating loan facility as well as financing fees associated with letters of credit. Cash used for financing activities in the fourth quarter of 2021 was largely related to interest expense and fees associated with the extension of the maturity date of the Company's operating loan facility and non-revolving term debt.

Investing Activities

Cash used for investing activities of $27.8 million in the current quarter as well as both comparative periods was primarily comprised of maintenance-of-business capital.

SPECIFIC ITEMS AFFECTING COMPARABILITY

Specific Items Affecting Comparability of Net Income (Loss)

Factors that impact the comparability of the quarters are noted below:

After-tax impact (millions of Canadian dollars, except for per share amounts)	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Net income (loss), as reported	**$ (69.8)**	**$ 16.3**	**$ (5.7)**	**$ (19.9)**	$ (101.1)	$ 12.1	$ 36.2	$ 8.4
Asset write-down and impairment	**$ 36.2**	**$ -**	**$ -**	**$ -**	$ 69.4	$ -	$ -	$ -
Adjusted net income (loss)[21]	**$ (33.6)**	**$ 16.3**	**$ (5.7)**	**$ (19.9)**	$ (31.7)	$ 12.1	$ 36.2	$ 8.4
Net income (loss) per share (EPS), as reported	**$ (1.07)**	**$ 0.25**	**$ (0.09)**	**$ (0.31)**	$ (1.55)	$ 0.19	$ 0.55	$ 0.13
Net impact of above items per share	**$ 0.55**	**$ -**	**$ -**	**$ -**	$ 1.06	$ -	$ -	$ -
Adjusted net income (loss) per share[21]	**$ (0.52)**	**$ 0.25**	**$ (0.09)**	**$ (0.31)**	$ (0.49)	$ 0.19	$ 0.55	$ 0.13

[21] Adjusted net income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

OUTLOOK

Pulp Markets

In recent weeks, global softwood kraft pulp market conditions have experienced a modest uptick as unplanned global supply outages, principally stemming from fibre-related downtime in Western Canada, has more than outweighed weak global macroeconomic conditions. Reflecting this favourable momentum, the Company announced a US$30 per tonne increase to its NBSK pulp list price to China in February 2023 to US$970 per tonne. Looking forward, global softwood kraft pulp markets are projected to remain relatively stable through the balance of the first quarter of 2023, as persistent high global pulp inventory levels and additional hardwood pulp capacity predicted to come online in

2023, combine with steady Chinese demand. Notwithstanding the projected increased supply, global pulp pricing is anticipated to remain above historic average price levels in the short-term.

As a result of the recent announcement, the Company's results in the first quarter of 2023 will reflect the impact on production and shipments of the wind down of the Company's pulp line at PG. Looking forward, the Company is focused on optimizing a sustainable operating footprint, improving operational reliability and closely managing manufacturing and fibre costs.

No major maintenance outages are planned for the first and second quarters of 2023. In the third quarter of 2023, a maintenance outage is currently planned at Northwood, with a projected 25,000 tonnes of reduced NBSK pulp production.

Paper Markets

Bleached kraft paper markets are projected to weaken somewhat through the first quarter of 2023 with a modest slowdown in demand anticipated as global kraft paper inventories return to more normalized levels. A maintenance outage is currently planned at the Company's paper machine in the second quarter of 2023 with a projected 5,000 tonnes of reduced paper production.

NON-IFRS FINANCIAL MEASURES

Throughout this 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 consolidated financial statements:

(millions of Canadian dollars)	**Q4 2022**	Q3 2022	**YTD 2022**	Q4 2021	YTD 2021
Reported operating income (loss)	**$ (91.1)**	$ 19.2	**$ (106.0)**	$ (137.2)	$ (65.5)
Asset write-down and impairment	**$ 49.6**	$ -	**$ 49.6**	$ 95.0	$ 95.0
Inventory write-down (recovery), net	**$ (0.5)**	$ (1.1)	**$ (2.2)**	$ 1.1	$ 2.4
Adjusted operating income (loss)	**$ (42.0)**	$ 18.1	**$ (58.6)**	$ (41.1)	$ 31.9
Amortization	**$ 26.4**	$ 27.5	**$ 97.8**	$ 22.6	$ 87.3
Adjusted operating income (loss) before amortization, asset write-down and impairment	**$ (15.6)**	$ 45.6	**$ 39.2**	$ (18.5)	$ 119.2

(millions of Canadian dollars, except ratios)	**2022**	2021
Reported operating loss	**$ (106.0)**	$ (65.5)
Other income, net	**$ -**	$ 8.8
Return	**$ (106.0)**	$ (56.7)
Average invested capital[22]	**$ 648.7**	$ 748.7
Return on invested capital (ROIC)	**(16.3)%**	(7.6)%

[22] 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)	**As at December 31, 2022**	As at December 31, 2021
Term-debt	**$ 50.0**	$ 50.0
Operating Loan	**$ 15.0**	$ -
Less: cash and cash equivalents	**$ 14.7**	$ 73.3
Net debt (cash)	**$ 50.3**	$ (23.3)
Total equity	**$ 427.4**	$ 495.0
Total capitalization	**$ 477.7**	$ 471.7
Net debt (cash) to total capitalization	**10.5%**	(4.9%)

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 consolidated financial statements. Management regularly reviews these estimates and assumptions based on 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 CPPI's financial position. Unless otherwise indicated, the critical accounting estimates discussed affect all of the Company's reportable segments.

Employee Future Benefits

The Company, in participation with Canfor, has various defined benefit and defined contribution plans providing both pension and other non-pension post-retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. CPPI also provides certain health care benefits and pension bridging benefits to eligible retired employees. The costs and related obligations of the pension and other non-pension post-retirement benefit plans are accrued in accordance with the requirements of IFRS.

CPPI uses independent actuarial firms to perform actuarial valuations of the fair value of pension and other non-pension post-retirement benefit plan obligations. The application of IFRS requires judgments regarding certain assumptions that affect the accrued benefit provisions and related expenses, including the discount rate used to calculate the present value of the obligations, the rate of compensation increases, mortality assumptions and the assumed health care cost trend rates. Management evaluates these assumptions quarterly based on experience and the recommendations of its actuarial firms. Changes in these assumptions result in actuarial gains or losses, which are recognized in full in each period with an adjustment through other comprehensive income (loss).

The actuarial assumptions used in measuring CPPI's benefit plan provisions and benefit costs are as follows:

	December 31, 2022		December 31, 2021	
	Defined Benefit Pension Plans	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Discount rate	**4.8%**	**4.8%**	3.0%	3.0%
Rate of compensation increases	**3.0%**	**n/a**	3.0%	n/a
Initial medical cost trend rate	**n/a**	**5.0%**	n/a	5.0%
Ultimate medical cost trend rate	**n/a**	**4.5%**	n/a	4.5%
Year ultimate rate is reached	**n/a**	**2025**	n/a	2025

Assumed discount rates, medical cost trend rates and mortality assumptions have a significant effect on the accrued retirement benefit obligation and related plan assets. In addition to the significant assumptions listed in the table above, the average life expectancy of a 65-year-old at December 31, 2022 is between 21.3 years and 24.4 years. As at December 31, 2022, the weighted average duration of the defined benefit plan obligation, which reflects the average age of the plan members, is 13.5 years. The weighted average duration of the other benefit plans is 10.7 years.

For CPPI's pension benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the accrued benefit obligation by an estimated $8.5 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation by an estimated $10.3 million. These changes would only impact the Company's funding requirements in years where a new actuarial funding valuation was performed and regulatory approval for a change in funding contributions was obtained.

Annuity Contracts

On December 31, 2022, the Company entered into contracts to convert all of its existing buy-in annuities to buy-out annuities. As a result of these contracts, the Company's buy-in annuity assets and corresponding accrued benefit obligation of $61.8 million were derecognized from the Company's consolidated balance sheet as at December 31, 2022.

Asset Retirement Obligations

CPPI's asset retirement obligations represent estimated undiscounted future payments of $9.3 million to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur at periods ranging from 3 to 29 years and have been discounted at risk-free rates ranging from 3.3% to 3.8%.

CPPI has certain assets that have indeterminable retirement dates and, therefore, there is an indeterminate settlement date for the related asset retirement obligations. As a result, no asset retirement obligations are recorded for these assets. These assets include wastewater and effluent ponds that will have to be drained once the related operating facility is closed and storage sites for which removal of chemicals, fuels and other related materials will be required once the related operating facility is closed. When the retirement dates of these assets become determinable and an estimate can be made, an asset retirement obligation will be recorded.

It is possible that changes in future conditions could require a material change in the recognized amount of the asset retirement obligations. The asset retirement obligations balance is included in 'Other long-term provisions' on the Company's consolidated balance sheet.

Asset Write-Down and Impairment

CPPI reviews the carrying values of its long-lived assets, including property, plant and equipment and right-of-use assets, on a regular basis as events or changes in circumstances may warrant. An impairment loss is recognized in net income (loss) at the amount that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

During the Company's annual impairment review, ongoing fibre cost pressures and continued uncertainty surrounding fibre availability for CPPI's pulp mills were identified as impairment indicators. As a result, the Company performed an impairment assessment on the property, plant and equipment of the pulp operations as at December 31, 2022.

The recoverable amount of the Company's property, plant and equipment within the pulp operations 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 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 9% (12% before tax), based on CPPI's weighted average cost of capital for 2022.

Subsequent to year-end, in January 2023, the Company announced the decision to permanently close the pulp line at its PG pulp and paper mill.

As previously indicated, as a result of this decision, as well as the aforementioned impairment assessment, an asset write-down and impairment charge totaling $49.6 million was recognized for the year ended December 31, 2022, as a reduction to the carrying value of pulp segment assets.

Deferred Taxes

In accordance with IFRS, CPPI recognizes deferred income tax assets when it is probable that the deferred income tax assets will be realized. This assumption is based on Management's best estimate of future circumstances and events. If these estimates and assumptions are changed in the future, the value of the deferred income tax assets could be reduced or increased, resulting in an income tax expense or recovery. CPPI re-evaluates its deferred income tax assets on a regular basis.

Valuation of Finished Product Inventories

Finished product inventories are recorded at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. CPPI estimates the net realizable value of finished goods inventories based on actual and forecasted sales orders, as well as outlook prices and forecast exchange rates for the period over which the inventories are expected to be sold. Outlook prices are determined using Management's estimates at the end of the period and may differ from the actual prices at which the inventories are sold.

RISKS AND UNCERTAINTIES

Risks and uncertainties fall into the general business areas of markets, international commodity prices, competition, currency exchange rates, environmental issues, raw materials, capital requirements, dependence on certain relationships, government regulations, public policy and labour disputes, and Native land claims. The future impact of the various uncertainties and potential risks described in the following paragraphs (together with the risks and uncertainties identified under each of the Company's business segments) cannot be quantified or predicted with certainty. However, CPPI does not foresee unmanageable adverse effects on its business operations from and believes that it is well positioned to deal with, such matters as may arise. The risks and uncertainties are set out in alphabetical order.

Climate Change

The Company's operations are subject to risks and opportunities related to climate change. These risks include, but are not limited to, chronic and acute physical risks such as the increasing frequency and severity of weather conditions, forest fires, hurricanes, earthquakes and timber diseases and insect infestations. These events could damage or destroy the Company's operating facilities, adversely affect timber supply or result in reduced transportation availability. These events could have similar effect on the facilities of the Company's suppliers and customers. Any of the damage caused by these events could increase costs and decrease production capacity at the Company's operations having an adverse effect on the Company's financial results. The Company believes there are reasonable insurance arrangements in place to cover certain outcomes of such incidents; however, there is no guarantee that these arrangements will fully protect the Company against such losses.

There are also transition risks associated with climate change. These include changes in laws, regulations and industry standards associated with climate change. The Company monitors all regulatory changes including any climate-related regulations, to assess their impact on operations. The Company considers adaptation and mitigation strategies to manage and reduce greenhouse gas emissions and is in the process of establishing a decarbonization roadmap. The Company is also committed to ensuring that the suppliers of fibre to the Company practice sustainable forest management practices which considers climate change. However, there is no guarantee that these efforts will be effective, and these risks may lead to increased capital expenditure or payment of carbon taxes or could adversely affect our operations or financial conditions.

There may be reputational risks due to rising prominence of environment, social and governance concerns among the Company's stakeholders and Indigenous partners which could impact public opinions about the Company and its industry and could adversely affect its reputation, business, strategy and operations. The Company continues to work closely with our Indigenous partners and stakeholders to understand their interests, identify risks and opportunities and gauge effectiveness of our management actions.

Competitive Markets

The Company's products are sold primarily in Asia and North America, with smaller volumes to other markets. The markets for the Company's products are highly competitive on a global basis, with a number of major companies competing in each market with no company holding a dominant position. Competitive factors include price, quality of product, volume, availability and reliability of supply, financial viability and customer service. The Company's competitive position is influenced by: the availability, quality, and cost of raw materials; chemical, energy and labour costs; free access to markets; currency exchange rates; plant efficiencies; and productivity in relation to its competitors. Access to markets could be influenced by global trade agreements, global Government relations and their impact on free trade, including the direct and indirect impacts to global demand, supply chains, the costs of production inputs and transportation due to geopolitical tensions and events such as US-China relations. These factors could potentially limit market growth opportunities or limit the Company's ability to service its customers.

Cyclicality of Product Prices

The Company's financial performance is dependent upon the selling prices of its pulp and paper products, which have fluctuated significantly in the past. The markets for these products are cyclical and may be characterized by (i) periods of excess product supply due to industry capacity additions, increased global production and other factors; and (ii) periods of insufficient demand due to weak general economic conditions. The economic climate of each region where the Company's products are sold has a significant impact upon the demand, and therefore, the prices for pulp and paper. Prices of pulp, in particular, have historically, to some degree, been unpredictable.

Dependence on Canfor

In 2022, approximately 64% of the fibre used by the Company was derived from the Fibre Supply Agreements with Canfor. 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. The Company's financial results could be materially adversely affected if Canfor is unable to provide the current volume of wood chips as a result of mill closures, whether temporary or permanent. Refer to the "Fibre Supply" section of this MD&A for further details.

Dependence on Key Customers

In 2022, the Company's top five customers accounted for approximately 38% of its pulp sales and one customer in the pulp segment accounted for 9% of the Company's total sales. In the event that the Company cannot maintain these customer relationships or the demand from these customers is diminished for any reason in the future, there is a risk that the Company would be forced to find alternative markets in which to sell its pulp, which in turn, could result in lower prices or increased distribution costs thereby adversely affecting its sales margins.

Environmental Issues

The Company is subject to a wide range of general and industry-specific laws and regulations relating to the protection of the environment, including those governing air emissions, wastewater discharges, the storage, management and disposal of hazardous substances and wastes, the cleanup of contaminated sites, landfill operation and closure obligations, and health and safety matters. These laws and regulations require the Company to comply with specific requirements as described in regulations. Regulations may also require the Company to obtain authorizations and comply with the authorization requirements of the appropriate governmental authorities which have considerable discretion over the terms and timing of said authorizations and permits.

The Company has incurred, and will continue to incur, capital, operating and other expenditures to comply with applicable environmental laws and regulations. In addition, the Company's operations will be subject to increasing costs associated with carbon related taxes and will be actively working to mitigate through investment in technology. No assurance can be given that changes in these laws and regulations or their application will not have a material adverse effect on the Company's business, operations, financial condition and operational results. Similarly, no assurance can be given that capital expenditures necessary for future compliance with existing and new environmental laws and regulations could be financed from the Company's available cash flow. In addition, the Company may discover currently unknown environmental issues, contamination, or conditions relating to historical or present operations. This may require site or other remediation costs to maintain compliance or remedy issues or result in governmental or private claims for damage to person, property or the environment, which could have a material adverse effect on the Company's business, financial condition and operational results.

The Company, in conjunction with Canfor, has systems in place to identify, account for and appropriately address potential environmental liabilities. The Company also has governance in place including an Environmental, Health and Safety Committee of the Board, a Corporate Environmental Management Committee including Officers of the Company, and environmental professionals on staff to manage potential risks, issues and liabilities.

The Company, in conjunction with Canfor, has in place internal policies and procedures under which all operations are regularly audited for compliance with laws and accepted standards and with its environmental management system requirements. The Company's pulp mills employ environmental management systems and the kraft pulp mills are certified under the ISO 14001 Environmental Management System Standard.

The Company's operations and its ability to sell products could be adversely affected if those operations did not, or were perceived by the public as failing to, comply with applicable laws and standards and following responsible environmental practices. Further discussion of environmental issues is included in the Company's Annual Information Form, incorporated by reference herein.

Financial Risk Management and Earnings Sensitivities

CPPI is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market risk.

CPPI's internal Risk Management Committee manages risk in accordance with a Board approved Price Risk Management Controls Policy. This policy provides the framework for risk management related to commodity price, foreign exchange, interest rate and counterparty credit risk of the Company.

(a) Credit risk:

Credit risk is the risk of financial loss to CPPI if a counterparty to a financial instrument fails to meet its contractual obligations.

Financial instruments that are subject to credit risk include cash and cash equivalents, trade and other accounts receivable. Contract assets are also subject to credit risk. Cash and cash equivalents includes cash held through major Canadian and international financial institutions as well as temporary investments that are readily convertible into known amounts of cash within three months or less from the date of acquisition. The cash and cash equivalents balance at December 31, 2022 is $14.7 million.

CPPI utilizes credit insurance to mitigate the risk associated with some of its trade accounts receivables. As at December 31, 2022, approximately 87% of the outstanding trade accounts receivables are covered by credit insurance. In addition, CPPI requires letters of credit on certain export trade accounts receivables and regularly discounts these letters of credit without recourse. CPPI recognizes the sale of the letters of credit on the settlement date, and accordingly reduces the related trade accounts receivable balance. CPPI's trade accounts receivable balance at December 31, 2022 is $83.4 million, before a loss allowance of $1.0 million. At December 31, 2022, approximately 100% of the trade accounts receivable balance is within CPPI's established credit terms.

(b) Liquidity risk:

Liquidity risk is the risk that CPPI will be unable to meet its financial obligations as they come due. The Company manages liquidity risk through regular cash flow forecasting in conjunction with an adequate operating loan facility and term debt.

At December 31, 2022, CPPI had cash and cash equivalents of $14.7 million, with $15.0 million drawn on its operating loan facility and $12.9 million reserved for several standby letters of credit, leaving $82.1 million available and undrawn. As a result, at December 31, 2022, the Company had available liquidity of $96.8 million, accounts payable and accrued liabilities of $150.1 million, and term debt of $50.0 million.

(c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates, foreign currency, commodity and energy prices.

(i) *Interest rate risk:*

CPPI is exposed to interest rate risk through its current financial assets, operating loan facility and term debt which bear variable interest rates. CPPI may use interest rate swaps to reduce its exposure to financial obligations bearing variable interest rates.

(ii) *Currency risk:*

CPPI is exposed to foreign exchange risk primarily related to the US-dollar, as CPPI products are sold globally with prices primarily denominated in US-dollars or linked to prices quoted in US-dollars with certain expenditures transacted in US-dollars. In addition, the Company holds financial assets and liabilities in US-dollars. These primarily include US-dollar bank accounts and trade accounts.

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax loss (gain) of approximately $0.5 million in relation to working capital balances denominated in US-dollars at year end (including cash, accounts receivable and accounts payable). A portion of the currency risk associated with US-dollar denominated sales is naturally offset by US-dollar denominated expenses. A portion of the remaining exposure is sometimes reduced by foreign exchange collar contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US-dollars.

(iii) *Commodity price risk:*

CPPI's financial performance is dependent on the selling price of its products and the purchase price of raw material inputs. Consequently, CPPI is exposed to changes in commodity prices for pulp and paper, as well as changes in fibre, freight, chemical and energy prices. The markets for pulp and paper are cyclical and are influenced by a variety of factors. These factors include periods of excess supply due to industry capacity additions, periods of decreased demand due to weak global economic activity, inventory destocking by customers and fluctuations in currency exchange rates. During periods of low prices, CPPI is subject to reduced revenues and margins, which adversely impact profitability.

From time to time, CPPI enters futures contracts on commodity exchanges for pulp. Under the Company's Price Risk Management Controls Policy, up to 1% of pulp sales may be sold in this way.

CPPI is also exposed to commodity price risk on the sale of electricity in Canada. Prices are set by third party regulatory bodies.

(iv) *Energy price risk:*

CPPI is exposed to energy price risk relating to purchases of natural gas and diesel oil for use in its operations. The annual exposure is, from time to time, hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of eighteen months.

At December 31, 2022 and December 31, 2021, the Company had no fixed interest rate swaps, foreign exchange contracts, pulp futures, energy fixed swaps or option contracts outstanding.

Earnings Sensitivities

Estimates of the sensitivity of CPPI's pre-tax results to currency fluctuations and prices for its principal products, based on 2023 forecast production and year end foreign exchange rates, are set out in the following table:

(millions of Canadian dollars)	Impact on annual pre-tax earnings	
NBSK Pulp – US$10 change per tonne[23]	$	8
Natural gas cost – $1 change per gigajoule	$	11
Chip cost – $1 change per tonne	$	3
Canadian dollar – US$0.01 change per Canadian dollar[24]	$	8

[23] Excluding impacts of exchange rate, freight, discounting, potential change in fibre costs and other deductions.
[24] Represents the impact on sales and freight costs and excludes the impact on manufacturing and products costs denominated in US$. Decrease of US$0.01 per Canadian dollar results in an increase to pre-tax annual earnings and an increase of US$0.01 per Canadian dollar results in a decrease to pre-tax annual earnings.

Government and Other Regulations

The Company is subject to a wide range of general and industry-specific environmental, health and safety and other laws and regulations imposed by federal, provincial and local authorities, including those governing the use, storage, handling, generation, treatment, emission, release, discharge and disposal of certain hazardous materials and wastes, the remediation of contaminated soil and ground water and the health and safety of employees. If the Company is unable to extend or renew a material approval, license or permit required by such laws, or if there is a delay in renewing any material approval, license or permit, the Company's business, financial condition, results of operations and cash flows could be materially adversely affected. In addition, future events such as any changes in these laws and regulations or any change in their interpretation or enforcement, or the discovery of currently unknown conditions, may give rise to unexpected expenditures or liabilities.

Increased Industry Production Capacity

The Company currently faces major competition in the global pulp industry and may face increased industry competition in the years to come if new manufacturing facilities are built or if existing mills are improved. If increases in pulp production capacity exceed increases in pulp demand, selling prices for pulp could decline and adversely affect the Company's business, financial condition, results of operations and cash flows, and the Company may not be able to compete with competitors who have greater financial resources and who are better able to weather a prolonged decline in prices.

Health & Safety

CPPI prioritizes health and safety throughout the organization and strives to ensure that its employees return home safely at the end of each shift. Despite these efforts, the nature of the Company's operations and failure to follow policies and procedures subject employees to a variety of risks, including those related to wood dust, heavy machinery, and chemicals. Apart from the impact on its people, threats to health and safety could cause interruptions to CPPI's business and have an adverse effect on CPPI's reputation, operations and financial results.

Indigenous Relations

CPPI sources the majority of its fibre from areas subject to claims of Indigenous rights or title. In November 2019, the Government of BC passed legislation *(Declaration on the Rights of Indigenous People Act)* to implement the United Nations Declaration on the Rights of Indigenous Peoples. The legislation aims to create a path forward that respects the human rights of Indigenous peoples while introducing better transparency and predictability to the work the BC government and Indigenous peoples do together. This work aims to foster increased and lasting certainty on the land base while ensuring that the benefits of sustainable forest harvesting are realized equitably by those engaged in and impacted by the forestry industry.

In December 2020, the Government of Canada tabled Bill C-15, which is the federal government's response to implementing the United Nations' *Declaration on the Rights of Indigenous People Act*. The Bill proceeded through the legislative process and was enacted into law in June 2021.

Canadian judicial decisions have recognized the continued existence of Indigenous rights and title to lands continuously and exclusively used or occupied by Indigenous groups. In June 2014, the Supreme Court of Canada, for the first time, recognized Indigenous title for the Tsilhqot'in Nation over approximately 1,750 square kilometres of land in central BC ("William decision"). It found that provisions of BC's *Forest Act*, dealing with the disposition or harvest of Crown timber, no longer applied to timber located on these lands, but also confirmed provincial law can apply on Indigenous title lands.

While Indigenous title had previously been assumed over specific, intensively occupied areas such as villages, the William decision marks the first time Canada's highest court has recognized Indigenous title over a specific piece of land and, in so doing, affirmed a broader territorial use-based approach to Indigenous title. The decision also defines what Indigenous title means and the types of land uses consistent with this form of collective ownership.

On June 29, 2021, the BC Supreme Court released its decision in *Yahey v British Columbia*, in which it ruled that the Crown had unjustifiably infringed the Treaty 8 rights of the Blueberry River First Nation ("BRFN") "in permitting the cumulative impacts of industrial development to meaningfully diminish BRFN's ability to exercise its treaty rights in its traditional territory" (the "Blueberry River decision"). The Blueberry River decision has potentially significant implications on regulatory and operational requirements for industrial development activities in northeast BC and could extend to other areas in Canada where similar claims may be made.

On January 18, 2023, BRFN and the Province of BC reached an agreement that will guide them forward in a partnership approach to land, water and resource stewardship, including forestry. The agreement includes land restoration, new areas protected from industrial development and constraints on development activities while a long-term cumulative effects management regime is implemented. Timber harvesting in the Fort St. John Timber Supply Area will be reduced by approximately 350,000 cubic metres per year. The full impacts of the agreement are still to be determined.

The impacts of BC's *Declaration on the Rights of Indigenous Peoples Act*, the federal government's Bill C-15, the William decision and the Blueberry River decision on the timber supply from Crown lands is unknown at this time. However, there is the potential for adverse timber supply and operational implications associated with the outcome of these ongoing negotiations and issues.

CPPI supports the work of tenure holders to engage, cooperate and exchange information and views with Indigenous Nations and Government to foster good relationships and minimize risks to the Company's operational plans.

Inflation

CPPI relies on fibre supply, chemicals, gas, electricity, transportation and labour in its operations. Costs associated with these goods and services experienced unusual inflationary pressures throughout 2022. Continued inflationary pressures will increase CPPI's operating costs and reduce operating margins. There is no guarantee that the effects of these cost pressures would be fully offset through price increases, productivity improvements or cost-reduction initiatives.

Information Technology

CPPI's information technology systems serve an important role in the operation of its business. CPPI relies on various technologies to access fibre, operate its production facilities, interact with customers, vendors and employees and to report on its business. Interruption, failure or unsuccessful implementation and integration of CPPI's information technology systems could result in material and adverse impacts on the Company's financial condition, operations, production, sales, and reputation and could also result in environmental and physical damage to Company operations or surrounding areas.

CPPI's information technology systems and networks could be interrupted or fail due to a variety of causes, such as natural disaster, fire, power outages, vandalism, or cyber-based attacks. Any such interruption or failure could result in operational disruptions or the misappropriation of sensitive or proprietary data that could subject CPPI to civil penalties, litigation or have a negative impact on the Company's reputation. There can be no assurance that such disruptions or misappropriations and the resulting repercussions will not negatively impact the Company's cash flows and have a material adverse effect on its business, operations, financial condition and operational results.

Although to date CPPI has not experienced any material losses relating to cyber risks, there can be no assurance that the Company will not incur such losses in the future. CPPI's risk and exposure cannot be fully mitigated due to the nature of these threats. The Company continues to develop and enhance internal controls, policies and procedures designed to protect systems, servers, computers, software, data and networks from attack, damage or unauthorized access remain a priority. CPPI, in conjunction with Canfor, has established a Management Cyber Risk Committee to assess and monitor risk mitigation efforts and to respond to emerging threats. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Labour Agreements and Competition for Professional Skilled Labour

Any labour disruptions and any costs associated with labour disruptions at the Company's mills could have a material adverse effect on the Company's production levels and results of operations. Any inability to negotiate acceptable contracts with the Unifor and PPWC unions as they expire could result in a strike or work stoppage by the affected workers and increased operating costs as a result of higher wages or benefits paid to unionized workers. The Company negotiated its collective agreements with Unifor and PPWC at its PG operations in February 2022; both labour agreements expire on April 30, 2025.

Maintenance Obligations and Facility Disruptions

The Company's manufacturing processes are vulnerable to operational problems that can impair its ability to manufacture its products. The Company could experience a breakdown in any of its machines, or other important equipment, and from time to time, the Company schedules planned and incurs unplanned outages to conduct maintenance that cannot be performed safely or efficiently during operations. Such disruptions could cause significant loss of production, which could have a material adverse effect on the Company's business, financial condition and operating results. The Company believes there are reasonable insurance arrangements in place to cover certain outcomes of such incidents; however, there can be no guarantees that these arrangements will fully protect the Company against such losses.

Raw Material Costs

The principal raw material utilized by the Company in its manufacturing operations is wood chips. The Company's evergreen Fibre Supply Agreements with Canfor contain pricing formulas that result in the Company paying market price for wood chips and contains provisions to adjust pricing to reflect market conditions. The current pricing under these agreements is expected to be renewed in 2023 and may be amended as necessary to ensure it is reflective of market conditions. Prices for wood chips are not within the Company's control and are driven by market demand, product availability, environmental restrictions, logging regulations, the imposition of fees or other restrictions on exports of lumber into the US and other matters. The impact of the Mountain Pine Beetle infestation in the region continues to impact overall fibre supply for the BC interior sawmills. The Prince George Timber Supply Area allowable annual cut ("AAC") has recently been reduced and is scheduled for another reduction in the next few years. This has the potential to significantly reduce the availability of residual chips that the Company currently consumes from regional sawmills, and an increased reliance on higher-cost whole log chips will be required. A lower AAC in the region may also reduce the availability of pulpwood for whole log chips. Residual chip pricing also depends on current sawmills running at current levels. If the residual chip supply is reduced as a result of AAC reductions, lower sawmill production or sawmill closures, whether temporary or permanent, it is expected that the market price for wood chips will increase. The Company is now always able to increase the selling price of its products in response to increases in raw material costs.

Transportation Services

The Company relies on third parties for transportation of its products, as well as delivery of raw materials principally by railroad, trucks and ships. If any significant third-party transportation providers were to fail to deliver the raw materials or products or distribute them in a timely manner, the Company may be unable to sell those products at full value, or at all, or be unable to manufacture its products in response to customer demand, which may have a material adverse effect on its financial condition and operating results. In addition, if any of these significant third parties were to cease operations, suffer labour-related disruptions, or cease doing business with the Company, the

Company may be unable to replace them at a reasonable cost. Transportation services may also be impacted by seasonal factors and severe weather, which could impact the timely delivery of raw materials and distribution of products to customers and have a resulting material adverse impact on CPPI's financial condition and operating results. As a result of increased government regulation on truck driver work hours, rail capacity constraints, and significant weather events including wildfires and flooding in the BC region in the current year, access to adequate transportation capacity has at times been strained and could affect the Company's ability to move its wood chips, pulp and paper at competitive market prices.

OUTSTANDING SHARE DATA

At February 28, 2023 there were 65,233,559 common shares issued and outstanding.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related consolidated financial statements was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2022 and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR") and confirm that there were no changes in the Company's ICFR during the year ended December 31, 2022 that materially affected, or would be reasonably likely to materially affect, such controls. Based upon their evaluation of these controls for the year ended December 31, 2022, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2022 Annual Information Form, is available at www.sedar.com or at www.canfor.com.