



# 2023

**QUARTER ONE**

INTERIM REPORT

FOR THE THREE MONTHS ENDED MARCH 31, 2023

**CANFOR PULP PRODUCTS INC.**

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## To Our Shareholders

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

### Overview

- Q1 2023 reported operating loss of \$25 million; net loss of \$19 million, or \$0.29 per share
- Global pulp market fundamentals softened late in the quarter amid uncertainty associated with rising pulp producer inventory levels
- Improved pulp production despite ongoing fibre challenges and wind down of pulp line at Prince George Pulp and Paper mill
- Subsequent to quarter-end, expanded and extended its operating loan facility and term debt

### Financial Results

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

(millions of Canadian dollars, except per share amounts)	Q1 2023	Q4 2022	Q1 2022
Sales	\$ 243.3	\$ 268.1	\$ 220.3
Reported operating loss before amortization, asset write-down and impairment	\$ (0.6)	\$ (15.1)	\$ (5.9)
Reported operating loss	\$ (25.2)	\$ (91.1)	\$ (26.0)
Adjusted operating income (loss) before amortization, asset write-down and impairment <sup>1</sup>	\$ 3.0	\$ (15.6)	\$ (7.0)
Adjusted operating loss <sup>1</sup>	\$ (21.6)	\$ (42.0)	\$ (27.1)
Net loss	\$ (18.8)	\$ (69.8)	\$ (19.9)
Net loss per share, basic and diluted	\$ (0.29)	\$ (1.07)	\$ (0.31)
Adjusted net loss <sup>1</sup>	\$ (18.8)	\$ (33.6)	\$ (19.9)
Adjusted net loss per share, basic and diluted <sup>1</sup>	\$ (0.29)	\$ (0.52)	\$ (0.31)

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

The Company reported an operating loss of \$25.2 million for the first quarter of 2023, compared to an operating loss of \$91.1 million for the fourth quarter of 2022. After adjusting for certain one-time items, including a \$3.6 million inventory write-down in the current period, the Company's operating loss was \$21.6 million for the first quarter of 2023, a \$20.4 million improvement compared to an adjusted operating loss of \$42.0 million for the fourth quarter of 2022. These results, for the most part, reflected a 13% increase in pulp production and an associated decline in pulp unit manufacturing costs quarter-over-quarter.

Following the strong global pulp market conditions experienced in 2022, market fundamentals came under modest pressure late in the first quarter of 2023. Relatively stable demand in the quarter was outweighed by an uptick in global pulp producer inventories, which, at the end of February 2023, were well above the balanced range, at 50 days of supply, an increase of seven days from the 43 days of supply at the end of December 2022 (Market conditions are generally considered balanced when inventories are in the 32-43 days of supply range). Consequently, the Northern Bleached Softwood Kraft ("NBSK") US-dollar list price on orders to China saw a modest decline, falling US\$48 per tonne to US\$865 per tonne in March 2023. For the current quarter overall, US-dollar NBSK pulp list prices to China averaged US\$891 per tonne, down US\$29 per tonne, or 3%, from the previous quarter.

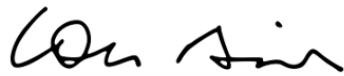
As mentioned, pulp production was up 13% from the previous quarter, principally reflecting the benefit of improved NBSK productivity in the current period following the numerous difficulties in the prior quarter driven by a shortage of economic fibre and winter weather conditions. The Company's Intercontinental NBSK pulp mill ("Intercon") started the current period curtailed as a result of ongoing fibre shortages, which reduced NBSK pulp production by approximately 35,000 tonnes in the first quarter of 2023. While challenges with operational reliability persisted throughout the current quarter, and impacted NBSK pulp production by approximately 30,000 tonnes, the operating performance at Intercon and at the Company's Northwood NBSK pulp mill ("Northwood") improved as the quarter progressed.

Operating income in the Company's paper segment was \$3.3 million, up \$1.4 million from the previous quarter, as a reduction in slush pulp costs, linked to lower Canadian dollar NBSK pulp market prices, was combined with an increase in paper production and shipments quarter-over-quarter.

Looking forward, global softwood kraft pulp markets are anticipated to continue to weaken through the second quarter of 2023, as relatively stable demand is projected to be overshadowed by above-average global pulp producer inventory levels.

Results in the second quarter of 2023 are also forecast to reflect the impact on pulp production and shipments of the closure of the Company's pulp line at the Prince George Pulp and Paper mill. No major maintenance outages are planned for the second quarter of 2023.

Bleached kraft paper markets are projected to weaken somewhat through the second 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.



**The Honourable John R. Baird**  
Chairman



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

### Non-IFRS Financial Measures

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

(millions of Canadian dollars)	<b>Q1 2023</b>	<b>Q4 2022</b>	<b>Q1 2022</b>
Reported operating loss	\$ (25.2)	\$ (91.1)	\$ (26.0)
Asset write-down and impairment	\$ -	\$ 49.6	\$ -
Inventory write-down (recovery), net	\$ 3.6	\$ (0.5)	\$ (1.1)
Adjusted operating loss	\$ (21.6)	\$ (42.0)	\$ (27.1)
Amortization	\$ 24.6	\$ 26.4	\$ 20.1
Adjusted operating income (loss) before amortization, asset write-down and impairment	\$ 3.0	\$ (15.6)	\$ (7.0)
Net loss	\$ (18.8)	\$ (69.8)	\$ (19.9)
Asset write-down and impairment, net of tax	\$ -	\$ 36.2	\$ -
Adjusted net loss	\$ (18.8)	\$ (33.6)	\$ (19.9)

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

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

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

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

*All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at May 2, 2023.*

### **Forward Looking Statements**

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

## FIRST QUARTER 2023 OVERVIEW

### Selected Financial Information and Statistics

(millions of Canadian dollars, except ratios)	Q1 2023	Q4 2022	Q1 2022
Operating income (loss) by segment:			
Pulp	\$ (24.4)	\$ (89.1)	\$ (29.3)
Paper	\$ 3.3	\$ 1.9	\$ 6.0
Unallocated	\$ (4.1)	\$ (3.9)	\$ (2.7)
<b>Total operating loss</b>	<b>\$ (25.2)</b>	<b>\$ (91.1)</b>	<b>\$ (26.0)</b>
Add: Amortization <sup>1</sup>	\$ 24.6	\$ 26.4	\$ 20.1
Add: Asset write-down and impairment	\$ -	\$ 49.6	\$ -
<b>Total operating loss before amortization, asset write-down and impairment</b>	<b>\$ (0.6)</b>	<b>\$ (15.1)</b>	<b>\$ (5.9)</b>
Add (deduct):			
Working capital movements	\$ 0.2	\$ 51.8	\$ (31.6)
Defined benefit pension plan contributions, net	\$ (0.9)	\$ (0.7)	\$ (1.0)
Income taxes paid, net	\$ (0.8)	\$ -	\$ (2.2)
Other operating cash flows, net	\$ 6.4	\$ 2.6	\$ 0.7
<b>Cash from operating activities</b>	<b>\$ 4.3</b>	<b>\$ 38.6</b>	<b>\$ (40.0)</b>
Deduct:			
Capital additions, net	\$ (12.0)	\$ (28.0)	\$ (18.4)
Other, net	\$ (2.0)	\$ (2.4)	\$ (0.7)
<b>Change in cash / operating loans</b>	<b>\$ (9.7)</b>	<b>\$ 8.2</b>	<b>\$ (59.1)</b>
ROIC – Consolidated period-to-date <sup>2</sup>	<b>(4.0)%</b>	(14.1)%	(4.1)%
<b>Average exchange rate (US\$ per C\$1.00)<sup>3</sup></b>	<b>\$ 0.740</b>	\$ 0.736	\$ 0.790

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

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

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

### Analysis of Specific Items Affecting Comparability of Shareholder Net Loss

After-tax impact (millions of Canadian dollars, except per share amounts)	Q1 2023	Q4 2022	Q1 2022
<b>Net loss, as reported</b>	<b>\$ (18.8)</b>	<b>\$ (69.8)</b>	<b>\$ (19.9)</b>
Asset write-down and impairment, net of tax	\$ -	\$ 36.2	\$ -
<b>Adjusted net loss<sup>4</sup></b>	<b>\$ (18.8)</b>	<b>\$ (33.6)</b>	<b>\$ (19.9)</b>
<b>Net loss per share (EPS), as reported</b>	<b>\$ (0.29)</b>	<b>\$ (1.07)</b>	<b>\$ (0.31)</b>
Net impact of above items per share	\$ -	\$ 0.55	\$ -
<b>Adjusted net loss per share<sup>4</sup></b>	<b>\$ (0.29)</b>	<b>\$ (0.52)</b>	<b>\$ (0.31)</b>

<sup>4</sup> Adjusted net loss is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

The Company reported an operating loss of \$25.2 million for the first quarter of 2023, compared to an operating loss of \$91.1 million for the fourth quarter of 2022. After adjusting for certain one-time items, including a \$3.6 million inventory write-down in the current period, the Company's operating loss was \$21.6 million for the first quarter of 2023, a \$20.4 million improvement compared to an adjusted operating loss of \$42.0 million for the fourth quarter of 2022. These results, for the most part, reflected a 13% increase in pulp production and an associated decline in pulp unit manufacturing costs quarter-over-quarter.

In January 2023, the Company announced the decision to restructure its operating footprint to align its manufacturing capacity with the long-term supply of economic residual fibre and, as a result, in April 2023, the Company wound down and permanently closed the pulp line at its Prince George ("PG") Northern Bleached Softwood Kraft ("NBSK") Pulp and Paper mill. In connection with this closure, the Company recognized restructuring costs of \$2.6 million during the current quarter.

Compared to the first quarter of 2022, adjusted operating results increased \$5.5 million, as a substantial uplift in average NBSK sales unit pulp realizations, materially higher paper unit sales realizations and a 5 cent, or 6%, weaker Canadian dollar in the current period, were offset in part by reduced pulp shipments and higher pulp unit manufacturing costs quarter-over-quarter.

## OPERATING RESULTS BY BUSINESS SEGMENT

### Pulp

#### Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	Q1 2023	Q4 2022	Q1 2022
Sales	\$ 187.4	\$ 216.6	\$ 176.5
Operating loss before amortization, asset write-down and impairment <sup>5</sup>	\$ (0.2)	\$ (13.6)	\$ (9.7)
Operating loss	\$ (24.4)	\$ (89.1)	\$ (29.3)
Asset write-down and impairment	\$ -	\$ 49.6	\$ -
Inventory write-down (recovery)	\$ 3.6	\$ (0.5)	\$ (1.1)
Adjusted operating loss <sup>6</sup>	\$ (20.8)	\$ (40.0)	\$ (30.4)
Average NBSK pulp price delivered to China – US\$ <sup>7</sup>	\$ 891	\$ 920	\$ 899
Average NBSK pulp price delivered to China – Cdn\$ <sup>7</sup>	\$ 1,204	\$ 1,250	\$ 1,138
Production – pulp (000 mt)	181	160	176
Shipments – pulp (000 mt)	152	170	176

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

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

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

### Markets

Following the strong global pulp market conditions experienced in 2022, market fundamentals came under modest pressure late in the first quarter of 2023, as relatively stable demand was outweighed by an uptick in global pulp producer inventories. Global softwood pulp producer inventories at the end of February 2023 were well above the balanced range, at 50 days<sup>8</sup> of supply, an increase of seven days from the 43 days of supply at the end of December 2022. Market conditions are generally considered balanced when inventories are in the 32-43 days of supply range.

Consequently, the NBSK US-dollar list price on orders to China saw a modest decline, falling to US\$865 per tonne in March 2023. For the current quarter overall, US-dollar NBSK pulp list prices to China averaged US\$891 per tonne, down US\$29 per tonne, or 3%, from the previous quarter and broadly in line with the first quarter of 2022. Prices to other global regions experienced similar declines in the current period, with the average US-dollar NBSK pulp list price to North America at US\$1,675 per tonne (before discounts), down US\$70 per tonne, or 4%, from the prior quarter. Compared to the same period in the prior year, however, pulp list prices to North America were up US\$148 per tonne, or 10%.

### Sales

The Company's pulp shipments for the first quarter of 2023 totaled 152,000 tonnes, down 18,000 tonnes, or 11%, from the previous quarter, and down 24,000 tonnes, or 14%, from the first quarter of 2022. Pulp shipments in the current quarter largely reflected the replenishment of inventory levels significantly reduced in the prior period as a result of the Company's Intercontinental NBSK pulp mill's ("Intercon") fibre-related curtailment late in 2022, and, to a lesser extent, the timing of vessels at the end of the current quarter. Compared to the first quarter of 2022, the decrease in pulp shipments primarily reflected the rebuild of pulp inventories in the current quarter.

The Company's average NBSK pulp unit sales realizations experienced a modest decrease compared to the previous quarter, principally tied to the aforementioned declines in global US-dollar list prices quarter-over-quarter. Compared to the first quarter of 2022, however, the Company's average NBSK pulp unit sales realizations saw a substantial increase, as broadly comparable US-dollar pulp list pricing to China was more than outweighed by an uptick in US-dollar pulp list pricing to North America and a 5 cent, or 6%, weaker Canadian dollar.

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



Energy revenues improved in the current quarter compared to the fourth quarter of 2022, largely reflecting a return to more normalized power generation combined with seasonally higher energy prices. Compared to the first quarter of 2022, energy revenues were down, principally due to a reduction in turbine operating days quarter-over-quarter.

### Operations

Pulp production was 181,000 tonnes for the first quarter of 2023, up 21,000 tonnes, or 13%, from the fourth quarter of 2022, principally reflecting the benefit of improved NBSK productivity in the current period following the numerous difficulties in the prior quarter driven by a shortage of economic fibre and winter weather conditions. The Company's Intercon pulp mill started the current period curtailed as a result of ongoing fibre shortages, which reduced NBSK pulp production by approximately 35,000 tonnes in the first quarter of 2023. While challenges with operational reliability persisted throughout the current quarter, and impacted NBSK pulp production by approximately 30,000 tonnes, the operating performance at Intercon and at the Company's Northwood NBSK pulp mill ("Northwood") improved as the quarter progressed.

In the fourth quarter of 2022, pulp production reflected an operating performance at Northwood and Intercon largely hindered by fibre shortages in the British Columbia ("BC") Interior, combined with the completion in mid-October of a scheduled maintenance outage at Intercon, as well as ongoing downtime at the Company's Taylor Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill ("Taylor"), which commenced in the first quarter of 2022 and continued through the balance of 2022. Combined, these factors reduced fourth quarter NBSK pulp production by approximately 90,000 tonnes and BCTMP production by 60,000 tonnes.

Compared to the first quarter of 2022, pulp production was up 5,000 tonnes, or 3%, primarily reflecting an increase in operating days in the current quarter. In the comparative 2022 period, pulp production was principally impacted by an extended outage on one production line at Northwood to enable the replacement of recovery boiler number one's ("RB1") lower furnace (approximately 70,000 tonnes), as well as various smaller operational upsets through the period (approximately 30,000 tonnes).

Pulp unit manufacturing costs were significantly lower in the current quarter compared to the fourth quarter of 2022, as the benefit of increased production volumes, lower maintenance spend and reduced energy costs in the current quarter, more than offset higher chemical costs. Fibre costs were slightly lower than the previous quarter, as a reduction in market-based prices for sawmill residual chips (linked to lower Canadian dollar NBSK pulp sales realizations) offset an increased proportion of higher-cost whole log chips as a result of sawmill curtailments in the current quarter. Compared to the first quarter of 2022, pulp unit manufacturing costs were materially higher, mostly attributable to market-related increases in fibre costs as well as higher chemical costs in the current quarter.

### **Paper**

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

(millions of Canadian dollars, unless otherwise noted)	<b>Q1 2023</b>	<b>Q4 2022</b>	<b>Q1 2022</b>
Sales	\$ 55.9	\$ 51.5	\$ 43.8
Operating income before amortization <sup>9</sup>	\$ 3.7	\$ 2.4	\$ 6.5
Operating income	\$ 3.3	\$ 1.9	\$ 6.0
Production – paper (000 mt)	34	32	34
Shipments – paper (000 mt)	35	32	31

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

### Markets

Global kraft paper markets remained relatively stable through the first quarter of 2023, as steady demand and balanced inventories in the North American market was offset by slight declines in offshore markets.

### Sales

The Company's paper shipments in the first quarter of 2023 were 35,000 tonnes, up 3,000 tonnes from the previous quarter, and up 4,000 tonnes from the first quarter of 2022, principally reflecting the timing of shipments around quarter-end compared to both comparative periods.

Paper unit sales realizations in the first quarter of 2023 were broadly in line with the previous quarter, largely reflecting steady global US-dollar paper pricing quarter-over-quarter. Compared to the first quarter of 2022, paper

unit sales realizations experienced a substantial increase, primarily driven by a notable improvement in US-dollar prices, especially to North American markets combined with the 6% weaker Canadian dollar.

#### Operations

Paper production for the first quarter of 2023 was 34,000 tonnes, up 2,000 tonnes from the previous quarter and in line with the comparative period. The former largely reflected improved productivity in the current period.

Paper unit manufacturing costs were moderately lower than the fourth quarter of 2022, primarily due to a modest reduction in slush pulp costs (tied to the decline in Canadian dollar NBSK pulp unit sales realizations), combined with lower chemical costs and reduced spend on operating supplies in the current period (timing-related). Compared to the first quarter of 2022, 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**

#### **Selected Financial Information**

(millions of Canadian dollars)	<b>Q1 2023</b>	<b>Q4 2022</b>	<b>Q1 2022</b>
Corporate costs	\$ (4.1)	\$ (3.9)	\$ (2.7)
Finance expense, net	\$ (2.5)	\$ (2.6)	\$ (1.0)
Other income (expense), net	\$ 2.4	\$ (1.8)	\$ (0.3)

Corporate costs were \$4.1 million for the first quarter of 2023 broadly in line with the previous quarter and up \$1.4 million from the first quarter of 2022, largely reflecting increased head office and general administrative expenses in the current period.

Net finance expense for the first quarter of 2023 was \$2.5 million, broadly in line with the previous quarter and up \$1.5 million compared to the first quarter of 2022. The latter 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.

Other income, net, of \$2.4 million in the first quarter of 2023 largely reflected the receipt of insurance proceeds related to operational downtime experienced at Northwood in recent years. Other expense, net, of \$1.8 million in the fourth quarter of 2022 and \$0.3 million in the first quarter of 2022 was primarily attributable to unfavourable foreign exchange movements on US-dollar denominated working capital balances.

#### **Other Comprehensive Income (Loss)**

In the first quarter of 2023, the Company recorded a gain of \$2.7 million (before tax) related to changes in the valuation of the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), principally reflecting a higher than anticipated return on plan assets. This compared to a loss of \$2.5 million (before tax) in the fourth quarter of 2022, primarily associated with updated membership data. In the first quarter of 2022, the Company recorded a gain of \$9.8 million (before tax), largely due to a 0.8% increase in the discount rate used to value the employee future benefit plans, partially offset by a lower than anticipated return on plan assets.

#### **SUMMARY OF FINANCIAL POSITION**

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

(millions of Canadian dollars, except for ratios)	<b>Q1 2023</b>	<b>Q4 2022</b>	<b>Q1 2022</b>
Increase (decrease) in cash and cash equivalents	\$ (14.7)	\$ 8.2	\$ (59.1)
Operating activities	\$ 4.3	\$ 38.6	\$ (40.0)
Financing activities	\$ (7.2)	\$ (2.6)	\$ (0.8)
Investing activities	\$ (11.8)	\$ (27.8)	\$ (18.3)
Ratio of current assets to current liabilities	<b>1.8 : 1</b>	1.9 : 1	2.1 : 1
Net debt to capitalization <sup>10</sup>	<b>12.7%</b>	10.5%	6.9%

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

## **Operating Activities**

Cash generated from operating activities in the first quarter of 2023 was \$4.3 million, compared to cash generated of \$38.6 million in the fourth quarter of 2022 and cash used of \$40.0 million in the first quarter of 2022. The \$34.3 million decrease in operating cash flows compared to the previous quarter was largely due to unfavourable movements in non-cash working capital, primarily driven by an increase in finished pulp inventories on hand quarter-over-quarter, offset in part by higher cash earnings in the current quarter. Compared to the first quarter of 2022, the increase in operating cash flows largely reflected favourable changes in non-cash working capital quarter-over-quarter, and, to a lesser extent, improved cash earnings in the current period.

## **Financing Activities**

Cash used for financing activities in the first quarter of 2023 was \$7.2 million, compared to cash used of \$2.6 million in the fourth quarter of 2022 and \$0.8 million in the first quarter of 2022. Cash used for financing activities in the current quarter primarily reflected a \$5.0 million repayment of the Company's principal operating loan facility in the period, as well as interest expense associated with the Company's term debt and financing fees related to letters of credit. Financing activities in both comparative periods principally reflected cash used for operating loan facility and term debt interest as well as financing fees tied to letters of credit.

## **Investing Activities**

Cash used for investing activities of \$11.8 million in the current quarter and \$27.8 million in the previous quarter was primarily associated with maintenance-of-business capital spend. Cash used for investing activities in the first quarter of 2022 of \$18.3 million was mostly comprised of Northwood's RB1 capital upgrade, and to a lesser extent, maintenance-of-business capital.

## **Liquidity and Financial Requirements**

At March 31, 2023, the Company had a \$110.0 million unsecured operating loan facility, with \$10.0 million drawn in the current quarter and \$13.0 million reserved for several standby letters of credit. At the end of the current quarter, the Company had \$87.0 million available and undrawn on its operating loan facility.

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization, and is based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar floating rate, plus a margin. The operating loan facility is repayable on November 1, 2026 and has certain financial covenants, including a maximum debt to total capitalization ratio.

The Company's \$50.0 million non-revolving term debt features similar financial covenants to the operating loan facility, including a maximum debt to total capitalization ratio. The term debt is repayable on November 1, 2025 with interest based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar floating rate, plus a margin.

As at March 31, 2023, the Company had net debt of \$60.0 million and available liquidity of \$87.0 million.

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

Subsequent to quarter-end, on May 2, 2023, the Company converted its \$50.0 million non-revolving term debt into its existing \$110.0 million committed operating loan facility, thereby increasing the principal amount of its existing committed operating facility to \$160.0 million. In conjunction with this conversion, the maturity date of the committed operating loan facility was extended to May 2, 2027. The terms of the amended committed operating loan facility are consistent with previous terms, such that interest is payable at floating rates that vary depending on the ratio of debt to capitalization and based on lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar floating rate, plus a margin.

In addition, on May 2, 2023, the Company secured a commitment to receive up to \$80.0 million of non-revolving term debt to support the Company's continued re-capitalization and re-investment in its facilities. This new non-revolving term debt has a maturity date of May 2, 2027, with interest payable at floating interest rates consistent with its operating loan facility. As at May 2, 2023 this non-revolving term debt remains undrawn.

## **OUTLOOK**

### **Pulp and Paper Markets**

Looking forward, global softwood kraft pulp markets are anticipated to continue to weaken through the second quarter of 2023, as relatively stable demand is projected to be overshadowed by above-average global pulp producer inventory levels.

Results in the second quarter of 2023 are also forecast to reflect the impact on pulp production and shipments of the closure of the Company's pulp line at PG. No major maintenance outages are planned for the second quarter of 2023.

Bleached kraft paper markets are projected to weaken somewhat through the second 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.

### **OUTSTANDING SHARES**

As at March 31, 2023 and May 2, 2023, there were 65,233,559 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%.

### **CRITICAL ACCOUNTING ESTIMATES**

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

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

During the quarter ended March 31, 2023, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

### **RISKS AND UNCERTAINTIES**

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

Sales are primarily influenced by changes in market pulp prices, sales volumes, global supply chain networks and fluctuations in Canadian dollar exchange rates. Operating income (loss), net income (loss) and operating income (loss) before amortization, asset write-down and impairment are primarily impacted by: sales revenue; freight costs; fluctuations of fibre, chemical and energy prices; level of spending and timing of maintenance downtime; and production curtailments. Net income (loss) is also impacted by fluctuations in Canadian dollar exchange rates, and the revaluation to the period end rate of US-dollar denominated working capital balances.

## SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
<b>Sales and income (loss)</b> (millions of Canadian dollars)								
Sales	\$ 243.3	\$ 268.1	\$ 308.3	\$ 288.9	\$ 220.3	\$ 249.3	\$ 298.9	\$ 334.3
Operating income (loss) before amortization, asset write-down and impairment <sup>11</sup>	\$ (0.6)	\$ (15.1)	\$ 46.7	\$ 15.7	\$ (5.9)	\$ (19.6)	\$ 37.8	\$ 72.9
Operating income (loss)	\$ (25.2)	\$ (91.1)	\$ 19.2	\$ (8.1)	\$ (26.0)	\$ (137.2)	\$ 15.8	\$ 51.0
Net income (loss)	\$ (18.8)	\$ (69.8)	\$ 16.3	\$ (5.7)	\$ (19.9)	\$ (101.1)	\$ 12.1	\$ 36.2
<b>Per common share</b> (Canadian dollars)								
Net income (loss) – basic and diluted	\$ (0.29)	\$ (1.07)	\$ 0.25	\$ (0.09)	\$ (0.31)	\$ (1.55)	\$ 0.19	\$ 0.55
Book value <sup>12</sup>	\$ 6.29	\$ 6.55	\$ 7.65	\$ 7.43	\$ 7.39	\$ 7.59	\$ 9.09	\$ 8.89
<b>Statistics</b>								
Pulp shipments (000 mt)	152	170	199	205	176	216	241	285
Paper shipments (000 mt)	35	32	32	34	31	27	34	30
Average exchange rate – US\$/Cdn\$	\$ 0.740	\$ 0.736	\$ 0.766	\$ 0.783	\$ 0.790	\$ 0.794	\$ 0.794	\$ 0.814
Average NBSK pulp list price delivered to China (US\$)	\$ 891	\$ 920	\$ 969	\$ 1,008	\$ 899	\$ 723	\$ 832	\$ 962

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

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

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

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

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

## NON-IFRS FINANCIAL MEASURES

Throughout this interim MD&A, reference is made to certain non-IFRS financial measures which are used to evaluate the Company's performance but are not generally accepted under IFRS. The following table provides a reconciliation of these non-IFRS financial measures to figures reported in the Company's condensed consolidated interim financial statements:

(millions of Canadian dollars)	Q1 2023	Q4 2022	Q1 2022
Reported operating loss	\$ (25.2)	\$ (91.1)	\$ (26.0)
Asset write-down and impairment	\$ -	\$ 49.6	\$ -
Inventory write-down (recovery), net	\$ 3.6	\$ (0.5)	\$ (1.1)
Adjusted operating loss	\$ (21.6)	\$ (42.0)	\$ (27.1)
Amortization	\$ 24.6	\$ 26.4	\$ 20.1
Adjusted operating income (loss) before amortization, asset write-down and impairment	\$ 3.0	\$ (15.6)	\$ (7.0)

(millions of Canadian dollars, except ratios)	<b>Q1 2023</b>	<b>Q4 2022</b>	<b>Q1 2022</b>
Reported operating loss	\$ (25.2)	\$ (91.1)	\$ (26.0)
Other income, net	\$ 2.5	\$ -	\$ -
Return	\$ (22.7)	\$ (91.1)	\$ (26.0)
Average invested capital <sup>14</sup>	\$ 573.3	\$ 646.4	\$ 626.8
Return on invested capital (ROIC)	(4.0%)	(14.1)%	(4.1)%

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

(millions of Canadian dollars, except ratios)	<b>As at March 31, 2023</b>	<b>As at December 31, 2022</b>	<b>As at March 31, 2022</b>
Term-debt	\$ 50.0	\$ 50.0	\$ 50.0
Operating loan	\$ 10.0	\$ 15.0	\$ -
Less: Cash and cash equivalents	\$ -	\$ 14.7	\$ 14.2
Net debt	\$ 60.0	\$ 50.3	\$ 35.8
Total equity	\$ 410.6	\$ 427.4	\$ 482.2
Total capitalization	\$ 470.6	\$ 477.7	\$ 518.0
Net debt to total capitalization	12.7%	10.5%	6.9%

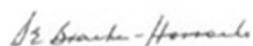
## Canfor Pulp Products Inc. Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)	As at March 31, 2023	As at December 31, 2022
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ -	\$ 14.7
Trade receivables	80.1	82.4
Other receivables	8.4	5.2
Income taxes recoverable	2.9	2.3
Inventories (Note 2)	202.4	183.2
Prepaid expenses and other	21.9	26.6
<b>Total current assets</b>	<b>315.7</b>	314.4
<b>Property, plant and equipment and intangible assets</b>		
<b>Right-of-use assets</b>	<b>1.8</b>	1.8
<b>Other long-term assets</b>	<b>7.6</b>	8.4
<b>Total assets</b>	<b>\$ 739.5</b>	\$ 756.0
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 163.3	\$ 150.1
Operating loan (Note 3(a))	10.0	15.0
Current portion of lease obligations	0.9	0.9
<b>Total current liabilities</b>	<b>174.2</b>	166.0
<b>Term debt</b> (Note 3(b))	<b>50.0</b>	50.0
<b>Retirement benefit obligations</b> (Note 4)	<b>45.9</b>	48.4
<b>Lease obligations</b>	<b>1.8</b>	1.9
<b>Other long-term provisions</b>	<b>7.5</b>	6.9
<b>Deferred income taxes, net</b>	<b>49.5</b>	55.4
<b>Total liabilities</b>	<b>\$ 328.9</b>	\$ 328.6
<b>EQUITY</b>		
Share capital	\$ 480.8	\$ 480.8
Accumulated deficit	(70.2)	(53.4)
<b>Total equity</b>	<b>\$ 410.6</b>	\$ 427.4
<b>Total liabilities and equity</b>	<b>\$ 739.5</b>	\$ 756.0

### Subsequent Event (Note 3)

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

APPROVED BY THE BOARD



Director, S.E. Bracken-Horrocks



Director, The Hon. J.R. Baird

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

	3 months ended March 31,	
(millions of Canadian dollars, except per share data, unaudited)	<b>2023</b>	2022
<b>Sales</b>	<b>\$ 243.3</b>	\$ 220.3
<b>Costs and expenses</b>		
Manufacturing and product costs	<b>202.2</b>	189.3
Freight and other distribution costs	<b>30.5</b>	30.9
Amortization	<b>24.6</b>	20.1
Selling and administration costs	<b>8.6</b>	6.0
Restructuring costs (Note 10)	<b>2.6</b>	-
	<b>268.5</b>	246.3
<b>Operating loss</b>	<b>(25.2)</b>	(26.0)
Finance expense, net	<b>(2.5)</b>	(1.0)
Other income (expense), net (Note 11)	<b>2.4</b>	(0.3)
Net loss before income taxes	<b>(25.3)</b>	(27.3)
Income tax recovery (Note 5)	<b>6.5</b>	7.4
<b>Net loss</b>	<b>\$ (18.8)</b>	\$ (19.9)
<b>Net loss per common share:</b> (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 6)	<b>\$ (0.29)</b>	\$ (0.31)

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



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

(millions of Canadian dollars, unaudited)	3 months ended March 31,	
	<b>2023</b>	2022
<b>Net loss</b>	<b>\$ (18.8)</b>	\$ (19.9)
<b>Other comprehensive income</b>		
Items that will not be reclassified subsequently to net loss:		
Defined benefit plan actuarial gains, net (Note 4)	<b>2.7</b>	9.8
Income tax expense on defined benefit plan actuarial gains, net (Note 5)	<b>(0.7)</b>	(2.7)
Other comprehensive income, net of tax	<b>2.0</b>	7.1
<b>Total comprehensive loss</b>	<b>\$ (16.8)</b>	\$ (12.8)

**Condensed Consolidated Statements of Changes in Equity**

(millions of Canadian dollars, unaudited)	3 months ended March 31,	
	<b>2023</b>	2022
<b>Share capital</b>		
Balance at beginning and end of period	<b>\$ 480.8</b>	\$ 480.8
<b>Retained earnings (accumulated deficit)</b>		
Balance at beginning of period	<b>\$ (53.4)</b>	\$ 14.2
Net loss	<b>(18.8)</b>	(19.9)
Defined benefit plan actuarial gains, net of tax	<b>2.0</b>	7.1
Balance at end of period	<b>\$ (70.2)</b>	\$ 1.4
<b>Total equity</b>	<b>\$ 410.6</b>	\$ 482.2

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

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

(millions of Canadian dollars, except per share data, unaudited)	3 months ended March 31,	
	<b>2023</b>	2022
<b>Cash generated from (used in):</b>		
<b>Operating activities</b>		
Net loss	\$ (18.8)	\$ (19.9)
Items not affecting cash:		
Amortization	24.6	20.1
Income tax recovery (Note 5)	(6.5)	(7.4)
Employee future benefits expense	0.6	0.8
Finance expense, net	2.5	1.0
Restructuring costs (Note 10)	2.6	-
Other, net	0.8	0.2
Defined benefit plan contributions, net	(0.9)	(1.0)
Income taxes paid, net	(0.8)	(2.2)
	4.1	(8.4)
Net change in non-cash working capital (Note 7)	0.2	(31.6)
	4.3	(40.0)
<b>Financing activities</b>		
Payment of lease obligations	(0.2)	(0.2)
Operating loan repayment (Note 3(a))	(5.0)	-
Finance expenses paid	(2.0)	(0.6)
	(7.2)	(0.8)
<b>Investing activities</b>		
Additions to property, plant and equipment and intangible assets, net	(12.0)	(18.4)
Other, net	0.2	0.1
	(11.8)	(18.3)
<b>Decrease in cash and cash equivalents*</b>	<b>(14.7)</b>	<b>(59.1)</b>
Cash and cash equivalents at beginning of period*	14.7	73.3
<b>Cash and cash equivalents at end of period*</b>	<b>\$ -</b>	<b>\$ 14.2</b>

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

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

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

Three months ended March 31, 2023 and 2022

### 1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Pulp Products Inc. and its subsidiary entities, hereinafter referred to as "CPPI" or "the Company." At March 31, 2023 and May 2, 2023, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI.

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2022, available at [www.canfor.com](http://www.canfor.com) or [www.sedar.com](http://www.sedar.com).

These financial statements were authorized for issue by the Company's Board of Directors on May 2, 2023.

### 2. Inventories

(millions of Canadian dollars, unaudited)	<b>As at March 31, 2023</b>	As at December 31, 2022
Pulp	\$ 97.1	\$ 66.6
Paper	28.7	29.6
Wood chips and logs	16.0	27.5
Materials and supplies	60.6	59.5
	<b>\$ 202.4</b>	<b>\$ 183.2</b>

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended March 31, 2023, a \$3.6 million inventory write-down expense was recognized (three months ended March 31, 2022 – \$1.1 million write-down recovery). At March 31, 2023, a provision for finished pulp, wood chips and logs of \$6.0 million was recognized (December 31, 2022 – provision of \$2.4 million related to logs).

### 3. Operating Loan and Term Debt

#### (a) Available Operating Loan

(millions of Canadian dollars, unaudited)	<b>As at March 31, 2023</b>	As at December 31, 2022
Operating loan facility	\$ 110.0	\$ 110.0
Letters of credit	(13.0)	(12.9)
Operating loan facility drawn	(10.0)	(15.0)
Total available operating loan facility	<b>\$ 87.0</b>	<b>\$ 82.1</b>

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

The operating loan facility is repayable on November 1, 2026 and has certain financial covenants, including a maximum debt to total capitalization ratio. At March 31, 2023, the Company was fully in compliance with all covenants relating to its operating loan facility.

Subsequent to quarter-end, on May 2, 2023, the Company converted its \$50.0 million non-revolving term debt (Note 3(b)) into its existing \$110.0 million committed operating loan facility, thereby increasing the principal amount of its existing committed operating facility to \$160.0 million. In conjunction with this conversion, the maturity date of the committed operating loan facility was extended to May 2, 2027. The terms of the amended committed operating loan facility are consistent with previous terms, such that interest is payable at floating rates that vary depending on the ratio of debt to capitalization and based on lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar floating rate, plus a margin.

## **(b) Term Debt**

The Company's \$50.0 million non-revolving term debt features similar financial covenants to the operating loan facility, including a maximum debt to total capitalization ratio. As at March 31, 2023, the Company was fully in compliance with all covenants relating to its term debt. The term debt is repayable on November 1, 2025 with interest based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar floating rate, plus a margin.

Subsequent to quarter-end, on May 2, 2023, the Company secured a commitment to receive up to \$80.0 million of non-revolving term debt to support the Company's continued re-capitalization and re-investment in its facilities. This new non-revolving term debt has a maturity date of May 2, 2027, with interest payable at floating interest rates consistent with its operating loan facility. As at May 2, 2023 this non-revolving term debt remains undrawn.

## **4. Retirement Benefit Obligations**

For the three months ended March 31, 2023, actuarial gains of \$2.7 million (before tax) were recognized in other comprehensive income in relation to the Company's net defined benefit obligations (comprised of defined benefit pension plans as well as other benefit plans), principally reflecting a higher than anticipated return on plan assets.

For the three months ended March 31, 2022, actuarial gains of \$9.8 million (before tax) were recognized in other comprehensive income, reflecting a 0.8% increase in the discount rate used to value the net defined benefit obligations, offset in part by a lower than anticipated return on plan assets.

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

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

## **5. Income Taxes**

The components of the Company's income tax recovery are as follows:

(millions of Canadian dollars, unaudited)	3 months ended March 31,	
	<b>2023</b>	2022
Current	<b>\$ (0.1)</b>	\$ 6.4
Deferred	<b>6.6</b>	1.0
Income tax recovery	<b>\$ 6.5</b>	\$ 7.4

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

(millions of Canadian dollars, unaudited)	3 months ended March 31,	
	<b>2023</b>	2022
Income tax recovery at statutory rate of 27.0% (2022 – 27.0%)	<b>\$ 6.8</b>	\$ 7.4
Add:		
Entities with different income tax rates and other tax adjustments	<b>0.2</b>	-
Permanent difference from capital gains and losses and other non-deductible items	<b>(0.5)</b>	-
Income tax recovery	<b>\$ 6.5</b>	\$ 7.4

In addition to the amounts recorded to net loss, a tax expense of \$0.7 million was recorded to other comprehensive income in relation to actuarial gains, net, on the Company's defined benefit plans for the three months ended March 31, 2023 (three months ended March 31, 2022 – \$2.7 million).

## 6. Earnings (Loss) Per Common Share

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

	3 months ended March 31,	
	2023	2022
Weighted average number of common shares	65,233,559	65,233,559

As at March 31, 2023 and May 2, 2023, there were 65,233,559 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%.

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

(millions of Canadian dollars, unaudited)	3 months ended March 31,	
	2023	2022
Trade and other receivables	\$ (0.9)	\$ (9.1)
Inventories	(19.2)	(17.7)
Prepaid expenses and other	4.8	(3.2)
Accounts payable and accrued liabilities	15.5	(1.6)
Net change in non-cash working capital	\$ 0.2	\$ (31.6)

## 8. Segment Information

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

(millions of Canadian dollars, unaudited)	Pulp	Paper	Unallocated	Elimination Adjustment	Consolidated
<b>3 months ended March 31, 2023</b>					
Sales from contracts with customers	\$ 187.4	\$ 55.9	\$ -	\$ -	\$ 243.3
Sales to other segments	33.4	-	-	(33.4)	-
Operating income (loss)	(24.4)	3.3	(4.1)	-	(25.2)
Amortization	24.2	0.4	-	-	24.6
Capital expenditures <sup>1</sup>	11.9	0.1	-	-	12.0
Total assets	655.9	68.7	14.9	-	739.5
3 months ended March 31, 2022					
Sales from contracts with customers	\$ 176.5	\$ 43.8	\$ -	\$ -	\$ 220.3
Sales to other segments	26.1	-	-	(26.1)	-
Operating income (loss)	(29.3)	6.0	(2.7)	-	(26.0)
Amortization	19.6	0.5	-	-	20.1
Capital expenditures	17.5	0.5	0.4	-	18.4
Total assets	740.0	61.2	28.8	-	830.0

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

## Geographic information

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

(millions of Canadian dollars, unaudited)	3 months ended March 31,		3 months ended March 31,	
	<b>2023</b>		2022	
Sales by location of customer				
Canada	<b>8%</b>	<b>\$ 18.9</b>	9%	\$ 20.0
Asia	<b>55%</b>	<b>135.1</b>	56%	123.4
United States	<b>27%</b>	<b>66.1</b>	26%	57.9
Europe	<b>6%</b>	<b>13.5</b>	5%	11.5
Other	<b>4%</b>	<b>9.7</b>	4%	7.5
	<b>100%</b>	<b>\$ 243.3</b>	100%	\$ 220.3

## 9. Related Party Transactions

For the three months ended March 31, 2023, the Company depended on Canfor to provide approximately 59% (three months ended March 31, 2022 – 56%) of its fibre supply as well as certain key business and administrative services. As a result of these relationships, the Company considers its operations to be dependent on its ongoing relationship with Canfor. The transactions with Canfor are consistent with the transactions described in the December 31, 2022 audited annual consolidated financial statements of CPPI and are based on agreed-upon amounts between the parties.

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

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

(millions of Canadian dollars, unaudited)	3 months ended March 31,	
	<b>2023</b>	2022
<b>Transactions</b>		
Purchase of wood chips and other	<b>\$ 47.7</b>	\$ 49.3
	<b>As at</b>	As at
	<b>March 31,</b>	December 31,
	<b>2023</b>	2022
<b>Balance Sheet</b>		
Included in accounts payable and accrued liabilities	<b>\$ 24.3</b>	\$ 19.0

## 10. Restructuring Costs

In January 2023, the Company announced the decision to permanently close the pulp line at its Prince George pulp and paper mill. In connection with this closure, during the three months ended March 31, 2023, the Company recognized severance costs of \$2.6 million, included in 'Restructuring costs' on the condensed consolidated statement of income (loss).

## 11. Other Income (Expense), Net

During the three months ended March 31, 2023, the Company received insurance proceeds of \$2.4 million related to operational downtime experienced at the Northwood pulp mill in recent years, included in 'Other income (expense), net' on the condensed consolidated statement of income (loss).