2023

QUARTER THREE

INTERIM REPORT

FOR THE THREE MONTHS ENDED SEPT. 30, 2023

CANFOR PULP PRODUCTS INC.

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To our Shareholders

Canfor Pulp Products Inc. ("The Company" or "CPPI") reported its third quarter of 2023 results[1]:

Overview

- Q3 2023 reported operating loss of $49 million; net loss of $36 million, or $0.55 per share
- Stable global pulp market fundamentals throughout the quarter, as a slight uptick in purchasing activity in China was offset by ongoing challenging conditions in other global regions
- Northwood NBSK Pulp Mill scheduled maintenance downtime and inspection of recovery boiler number one completed as planned; restart delayed due to operational challenges

Financial Results

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

(millions of Canadian dollars, except per share amounts)	**Q3 2023**	Q2 2023	**YTD 2023**	Q3 2022	YTD 2022
Sales	**$ 188.8**	$ 249.5	**$ 681.6**	$ 308.3	$ 817.5
Reported operating income (loss) before amortization	**$ (27.7)**	$ (15.3)	**$ (43.6)**	$ 46.7	$ 56.5
Reported operating income (loss)	**$ (49.3)**	$ (37.9)	**$ (112.4)**	$ 19.2	$ (14.9)
Adjusted operating income (loss) before amortization	**$ (29.7)**	$ (8.4)	**$ (35.1)**	$ 45.6	$ 54.8
Adjusted operating income (loss)[1]	**$ (51.3)**	$ (31.0)	**$ (103.9)**	$ 18.1	$ (16.6)
Net income (loss)	**$ (35.7)**	$ (28.4)	**$ (82.9)**	$ 16.3	$ (9.3)
Net income (loss) per share, basic and diluted	**$ (0.55)**	$ (0.44)	**$ (1.27)**	$ 0.25	$ (0.14)

[1] 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 $49.3 million for the third quarter of 2023, compared to an operating loss of $37.9 million for the second quarter of 2023. After taking into consideration a net $2.0 million reversal of a previously recognized inventory write-down, the Company's adjusted operating loss was $51.3 million for the third quarter of 2023, compared to an adjusted operating loss of $31.0 million for the second quarter of 2023. These results principally reflected the continuation of soft global pulp market conditions throughout most of the current period combined with extensive downtime at the Company's Northwood Northern Bleached Softwood Kraft ("NBSK") pulp mill ("Northwood") driven by supply chain disruptions and scheduled maintenance, as well as persistent reliability challenges and a delayed restart. When combined, these factors drove a significant unfavourable timing lag in the Company's shipments (versus orders) and led to a substantial decline in the Company's NBSK pulp sales unit realizations in the current quarter.

Global softwood pulp market fundamentals were relatively flat through the current quarter, following a significant decline in the preceding quarter. Later in the period, however, buyers started to regain some market confidence, with lower global pulp pricing leading to a slight increase in purchasing activity, as producers worked to reduce their higher-than-average inventory levels. Consequently, US-dollar NBSK list prices to China, the world's largest pulp consumer, saw some positive momentum towards the end of the quarter, ending September at US$715 per tonne. As a result, average US-dollar NBSK pulp list prices to China for the current quarter were US$680 per tonne, up US$12 per tonne, or 2%, from the previous quarter. Notwithstanding the slight uplift in US-dollar NBSK list prices to China in the current period, the Company's average NBSK pulp unit sales realizations experienced a significant decrease compared to the previous quarter, principally driven by an unfavourable timing lag in shipments (versus orders), which was exacerbated by the Company's reduced pulp production in the current quarter, and was combined with the ongoing deterioration in pulp market conditions and pricing to other global regions, including North America.

Pulp production was down 28,000 tonnes, or 19%, from the previous quarter. Early in the current period, NBSK pulp production was impacted by a labour dispute at the Ports of Vancouver and Prince Rupert which put pressure on an already constrained logistics network in British Columbia ("BC"). As a direct result, with pulp mill inventories at capacity, the Company curtailed Northwood in July for approximately one week, with 10,000 tonnes of reduced NBSK pulp production. In addition, as planned, NBSK pulp production was decreased by the successful completion of a scheduled maintenance outage at Northwood in September (approximately 25,000 tonnes). Later in the period, however, the restart of Northwood was delayed into fourth quarter by numerous operational difficulties, unrelated to the scheduled maintenance downtime, that resulted in a further reduction in NBSK pulp production (approximately 10,000 tonnes in the third quarter). This slow ramp up further emphasizes the general operational reliability challenges at Northwood in 2023, which, in the current quarter, also impacted NBSK pulp production by approximately 20,000 tonnes. In the second quarter of 2023, the Company's pulp production primarily reflected operational footprint changes, which took effect in April, as well as operational challenges at Northwood (approximately 40,000 tonnes).

Operating income in the Company's paper segment was $4.4 million, up $3.7 million from the previous quarter, primarily reflecting a substantial reduction in slush pulp costs, linked to lower Canadian dollar NBSK pulp market prices in the current period.

Looking forward, global softwood pulp markets are anticipated to experience a slight improvement in the fourth quarter of 2023, as elevated inventory levels slowly begin to normalize following the seasonally slower summer months. These factors are projected to be tempered by general global economic uncertainty and pressures.

The Company's results in the fourth quarter of 2023 will reflect the aforementioned operational challenges at Northwood associated with the delayed startup, with a projected 30,000 tonnes of reduced NBSK pulp production, combined with higher associated maintenance costs and lower shipment volumes. These factors are also anticipated to give rise to a larger-than-normal unfavourable timing lag in shipments (vs orders) and thus it is estimated that fourth quarter results will reflect persistently lower NBSK pulp sales unit realizations, regardless of any uptick in US-dollar NBSK list prices that may arise.

While no major maintenance outages are planned at the Company's operations in the fourth quarter of 2023, given the ongoing uncertainty with regards to the availability of economically viable fibre in BC, and a projected weaker North American lumber market, the Company anticipates a challenging fibre supply environment for its pulp mills (both for sawmill residual chips and whole-log chips). The Company will continue to monitor operating conditions and will adjust operating rates, to align with economically viable fibre supply, through the balance of 2023 and into 2024.

Bleached kraft paper markets are anticipated to continue to soften through the balance of 2023, particularly in North America, as tepid demand is combined with above-average paper inventory levels.

The Honourable John R. Baird
Chairman

Kevin A. Edgson
President and Chief Executive Officer

Non-IFRS Financial Measures

Throughout this interim report, 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)	**Q3 2023**	Q2 2023	**YTD 2023**	Q3 2022	YTD 2022
Reported operating income (loss)	**$ (49.3)**	$ (37.9)	**$ (112.4)**	$ 19.2	$ (14.9)
Inventory write-down (recovery), net	**$ (2.0)**	$ 6.9	**$ 8.5**	$ (1.1)	$ (1.7)
Adjusted operating income (loss)	**$ (51.3)**	$ (31.0)	**$ (103.9)**	$ 18.1	$ (16.6)
Amortization	**$ 21.6**	$ 22.6	**$ 68.8**	$ 27.5	$ 71.4
Adjusted operating income (loss) before amortization	**$ (29.7)**	$ (8.4)	**$ (35.1)**	$ 45.6	$ 54.8

Canfor Pulp Products Inc.
Third 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 September 30, 2023 relative to the quarters ended June 30, 2023 and September 30, 2022, and the financial position of the Company at September 30, 2023. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended, September 30, 2023 and 2022, as well as the 2022 annual MD&A and the 2022 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2022 (available at www.canfor.com*). 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 "Third 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), Adjusted Net 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 (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 third quarter of 2023.

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at November 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.

THIRD QUARTER 2023

Overview

(millions of Canadian dollars)	Q3 2023	Q2 2023	YTD 2023	Q3 2022	YTD 2022
Operating income (loss)	**$ (49.3)**	$ (37.9)	**$ (112.4)**	$ 19.2	$ (14.9)
Inventory write-down (recovery), net	**$ (2.0)**	$ 6.9	**$ 8.5**	$ (1.1)	$ (1.7)
Adjusted operating income (loss)	**$ (51.3)**	$ (31.0)	**$ (103.9)**	$ 18.1	$ (16.6)
Amortization	**$ 21.6**	$ 22.6	**$ 68.8**	$ 27.5	$ 71.4
Adjusted operating income (loss) before amortization	**$ (29.7)**	$ (8.4)	**$ (35.1)**	$ 45.6	$ 54.8

Selected Financial Information and Statistics

(millions of Canadian dollars, except ratios)	Q3 2023	Q2 2023	YTD 2023	Q3 2022	YTD 2022
Operating income (loss) by segment:					
Pulp	**$ (50.8)**	$ (36.0)	**$ (111.2)**	$ 18.6	$ (21.8)
Paper	**$ 4.4**	$ 0.7	**$ 8.4**	$ 4.1	$ 16.3
Unallocated	**$ (2.9)**	$ (2.6)	**$ (9.6)**	$ (3.5)	$ (9.4)
Total operating income (loss)	**$ (49.3)**	$ (37.9)	**$ (112.4)**	$ 19.2	$ (14.9)
Add: Amortization[1]	**$ 21.6**	$ 22.6	**$ 68.8**	$ 27.5	$ 71.4
Total operating income (loss) before amortization	**$ (27.7)**	$ (15.3)	**$ (43.6)**	$ 46.7	$ 56.5
Add (deduct):					
Working capital movements	**$ 2.8**	$ 41.5	**$ 44.5**	$ (40.5)	$ (55.8)
Defined benefit pension plan contributions, net	**$ (0.8)**	$ (3.3)	**$ (5.0)**	$ (0.9)	$ (2.6)
Income taxes (paid) received, net	**$ 1.3**	$ 0.1	**$ 0.6**	$ (0.4)	$ (3.6)
Other operating cash flows, net	**$ 9.1**	$ 4.2	**$ 19.7**	$ 7.9	$ 12.2
Cash from operating activities	**$ (15.3)**	$ 27.2	**$ 16.2**	$ 12.8	$ 6.7
Deduct:					
Capital additions, net	**$ (16.6)**	$ (10.3)	**$ (38.9)**	$ (28.5)	$ (84.6)
Repayment of term debt	**$ -**	$ (50.0)	**$ (50.0)**	$ -	$ -
Other, net	**$ (2.8)**	$ (3.3)	**$ (8.1)**	$ (1.9)	$ (3.9)
Change in cash / operating loans	**$ (34.7)**	$ (36.4)	**$ (80.8)**	$ (17.6)	$ (81.8)
ROIC – Consolidated period-to-date[2]	**(9.4)%**	(6.2)%	**(19.1)%**	2.9%	(2.3)%
Average exchange rate (US$ per C$1.00)[3]	**$ 0.746**	$ 0.745	**$ 0.743**	$ 0.766	$ 0.779

[1] Amortization includes amortization of certain capitalized major maintenance costs.
[2] Consolidated ROIC is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[3] Source – Bank of Canada (monthly average rate for the period).

The Company reported an operating loss of $49.3 million for the third quarter of 2023, compared to an operating loss of $37.9 million for the second quarter of 2023. After taking into consideration a net $2.0 million reversal of a previously recognized inventory write-down, the Company's adjusted operating loss was $51.3 million for the third quarter of 2023, compared to an adjusted operating loss of $31.0 million for the second quarter of 2023. These results principally reflected the continuation of soft global pulp market conditions throughout most of the current period combined with extensive downtime at the Company's Northwood Northern Bleached Softwood Kraft ("NBSK") pulp mill ("Northwood") driven by supply chain disruptions and scheduled maintenance, as well as persistent reliability challenges and a delayed restart. When combined, these factors drove a significant unfavourable timing lag in the Company's shipments (versus orders) and led to a substantial decline in the Company's NBSK pulp sales unit realizations in the current 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") NBSK Pulp and Paper mill. In connection with this closure, the Company's Intercontinental NBSK pulp mill ("Intercon") was successfully converted to provide slush pulp to its specialty paper facility. The combined impact of these operating structure changes is a reduction of approximately 280,000 tonnes of market kraft pulp production annually.

Compared to the third quarter of 2022, adjusted operating results declined $69.4 million, primarily reflecting significantly lower US-dollar NBSK pulp list prices, combined with a substantial reduction in production and shipment volumes in the current quarter.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	Q3 2023	Q2 2023	YTD 2023	Q3 2022	YTD 2022
Sales	**$ 142.3**	$ 197.6	**$ 527.3**	$ 258.9	$ 672.1
Operating income (loss) before amortization[5]	**$ (29.9)**	$ (14.1)	**$ (44.2)**	$ 45.5	$ 48.0
Operating income (loss)	**$ (50.8)**	$ (36.0)	**$ (111.2)**	$ 18.6	$ (21.8)
Inventory write-down (recovery), net	**$ (2.0)**	$ 6.9	**$ 8.5**	$ (1.1)	$ (1.7)
Adjusted operating income (loss)[6]	**$ (52.8)**	$ (29.1)	**$ (102.7)**	$ 17.5	$ (23.5)
Average NBSK pulp price delivered to China – US$[7]	**$ 680**	$ 668	**$ 746**	$ 969	$ 959
Average NBSK pulp price delivered to China – Cdn$[7]	**$ 912**	$ 897	**$ 1,004**	$ 1,265	$ 1,231
Production – pulp (000 mt)	**123**	151	**455**	195	558
Shipments – pulp (000 mt)	**142**	179	**473**	199	580

[5] Amortization includes amortization of certain capitalized major maintenance costs.
[6] Adjusted operating income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[7] Per tonne, NBSK pulp list net price delivered to China (as published by Resource Information Systems, Inc. ("RISI")); Average NBSK pulp list net price delivered to China in Cdn$ calculated as average NBSK pulp list net price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.

Markets

Global softwood pulp market fundamentals were relatively flat through the third quarter of 2023, following a significant decline in the preceding quarter. Later in the period, however, buyers started to regain some market confidence, with lower global pulp pricing leading to a slight increase in purchasing activity, as producers worked to reduce their higher-than-average inventory levels. Consequently, US-dollar NBSK list prices to China, the world's largest pulp consumer, saw some positive momentum towards the end of the quarter, ending September at US$715 per tonne. As a result, average US-dollar NBSK pulp list prices to China for the current quarter were US$680 per tonne, up US$12 per tonne, or 2%, from the previous quarter. Compared to the third quarter of 2022, however, pulp list prices to China were down US$289 per tonne, or 30%.

Even with the modest positive signals seen in China late in the current period, demand and pricing in other global regions remained challenging during the third quarter, with the average US-dollar NBSK pulp list price to North America falling sharply to US$1,293 per tonne (before discounts), down US$217 per tonne, or 14%, from the previous quarter, and down US$507 per tonne, or 28%, compared to the same period from last year.

Global softwood pulp producer inventories steadily improved as the current quarter progressed, ending September 2023 at 38 days[8] of supply, a decline of 13 days from June 2023. (Market conditions are generally considered balanced when inventories are within a normal range of 32-43 days of supply).

Sales

The Company's pulp shipments for the third quarter of 2023 totaled 142,000 tonnes, down 37,000 tonnes, or 21%, from the previous quarter, and down 57,000 tonnes, or 29%, from the third quarter of 2022. Decreased pulp shipments in the current quarter largely reflected the 19% decline in pulp production and, to a lesser extent, the timing of vessels quarter-over-quarter.

[8] 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").

Compared to the third quarter of 2022, the decrease in pulp shipments primarily reflected the 37% reduction in pulp production, offset in part by a drawdown of inventory levels in the current year following the closure of the pulp line at PG in April.

Notwithstanding the slight uplift in US-dollar NBSK list prices to China in the current period, the Company's average NBSK pulp unit sales realizations experienced a significant decrease compared to the previous quarter, principally driven by an unfavourable timing lag in shipments (versus orders), which was exacerbated by the Company's reduced pulp production in the current quarter, and was combined with the ongoing deterioration in pulp market conditions and pricing to other global regions, including North America.

Compared to the third quarter of 2022, the Company's average NBSK pulp unit sales realizations saw a substantial decline, primarily driven by the aforementioned downward pressure on global US-dollar pulp list pricing, offset in part by the 3% weaker Canadian dollar.

Energy revenues were broadly in line with the prior quarter and moderately higher than the third quarter of 2022. The latter was principally driven by improved energy generation despite the decreased pulp production quarter-over-quarter.

Operations

Pulp production was 123,000 tonnes for the third quarter of 2023, down 28,000 tonnes, or 19%, from the second quarter of 2023. Early in the current quarter, NBSK pulp production was impacted by a labour dispute at the Ports of Vancouver and Prince Rupert which put pressure on an already constrained logistics network in British Columbia ("BC"). As a direct result, with pulp mill inventories at capacity, the Company curtailed Northwood in July for approximately one week, with 10,000 tonnes of reduced NBSK pulp production. In addition, as planned, NBSK pulp production was decreased by the successful completion of a scheduled maintenance outage at Northwood in September (approximately 25,000 tonnes). Later in the period, however, the restart of Northwood was delayed into the fourth quarter by numerous operational difficulties, unrelated to the scheduled maintenance downtime, that resulted in a further reduction in NBSK pulp production (approximately 10,000 tonnes in the third quarter). This slow ramp up further emphasizes the general operational reliability challenges at Northwood in 2023, which, in the current quarter, also impacted NBSK pulp production by approximately 20,000 tonnes.

In the second quarter of 2023, the Company's pulp production primarily reflected operational footprint changes, which took effect in April, as well as, operational challenges at Northwood (approximately 40,000 tonnes).

Compared to the third quarter of 2022, pulp production was down 72,000 tonnes, or 37%, mainly due to the aforementioned operating platform changes quarter-over-quarter, combined with planned and unplanned downtime at Northwood in the current period. In the comparative 2022 period, pulp production was principally impacted by the completion in mid-July of Northwood's scheduled maintenance outage (approximately 16,000 tonnes) as well as the commencement in September of Intercon's planned maintenance downtime (approximately 6,000 tonnes).

Pulp unit manufacturing costs experienced a modest increase compared to the prior quarter principally driven by lower pulp production, and, to a lesser extent, elevated chemical costs, offset to a degree by reduced fibre costs in the current period. Fibre costs showed a moderate decline, as lower market-based prices for sawmill residual chips (linked to lower Canadian dollar NBSK pulp sales realizations) were combined with a reduction in the proportion of higher-cost whole log chips quarter-over-quarter. Compared to the third quarter of 2022, pulp unit manufacturing costs were slightly higher, as the impact on unit costs of a significant reduction in pulp production was mostly offset by reduced energy costs and a decline in fibre costs in the current period, largely tied to lower market-based prices for sawmill residual chips.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars, unless otherwise noted)	Q3 2023	Q2 2023	YTD 2023	Q3 2022	YTD 2022
Sales	**$ 46.5**	$ 51.9	**$ 154.3**	$ 49.4	$ 145.4
Operating income before amortization[9]	**$ 5.0**	$ 1.4	**$ 10.1**	$ 4.6	$ 17.8
Operating income	**$ 4.4**	$ 0.7	**$ 8.4**	$ 4.1	$ 16.3
Production – paper (000 mt)	**32**	30	**96**	33	100
Shipments – paper (000 mt)	**30**	32	**97**	32	97

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

Markets

The softness in global kraft paper market conditions experienced at the end of the previous quarter continued throughout the third quarter of 2023, particularly in the North American market.

Sales

The Company's paper shipments in the third quarter of 2023 were 30,000 tonnes, down 2,000 tonnes from both comparative periods, principally tied to the timing of shipments around quarter-end.

Paper unit sales realizations in the third quarter of 2023 were modestly lower than the previous quarter, largely reflecting growing pressure on global US-dollar paper pricing in the current period. Compared to the third quarter of 2022, paper unit sales realizations experienced a slight decline, as softening US-dollar pricing quarter-over-quarter, especially to the North American market, was offset in part by the weaker Canadian dollar.

Operations

Paper production for the third quarter of 2023 was 32,000 tonnes, up 2,000 tonnes from the previous quarter and broadly in line with the same period in the prior year. The former was principally driven by the scheduled maintenance outage at the Company's paper machine in the prior quarter.

Paper unit manufacturing costs were moderately lower than the second quarter of 2023, primarily due to a substantial reduction in slush pulp costs (tied to the notable decline in Canadian dollar NBSK pulp unit sales realizations). Compared to the third quarter of 2022, paper unit manufacturing costs saw a significant decline, principally driven by a notable decrease in slush pulp costs, offset in part by higher energy costs in the current period following the closure of the Company's pulp line at PG in April 2023.

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)	Q3 2023	Q2 2023	YTD 2023	Q3 2022	YTD 2022
Corporate costs	**$ (2.9)**	$ (2.6)	**$ (9.6)**	$ (3.5)	$ (9.4)
Finance expense, net	**$ (3.3)**	$ (3.8)	**$ (9.6)**	$ (2.1)	$ (4.7)
Other income, net	**$ 3.2**	$ 2.9	**$ 8.5**	$ 5.2	$ 6.8

Corporate costs were $2.9 million for the third quarter of 2023, broadly in line with the previous quarter and down $0.6 million from the third quarter of 2022, with the latter largely reflecting a decline in head office and general administrative expenses in the current period.

Net finance expense for the third quarter of 2023 was $3.3 million, broadly in line with the prior quarter and up $1.2 million compared to the same period in the prior year. The latter principally driven by an uplift in interest expense quarter-over-quarter, as well as higher financing fees associated with letters of credit in the current period.

Other income, net, of $3.2 million in the third quarter of 2023 largely related to the receipt of insurance proceeds related to operational downtime experienced at Northwood in recent years, combined with favourable foreign exchange movements on US-dollar denominated working capital balances. Other income, net, of $2.9 million in the second quarter of 2023 principally reflected the receipt of Northwood related insurance proceeds, while other income, net, of $5.2 million in the third quarter of 2022 was primarily attributable to favourable foreign exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income

In the third quarter of 2023, the Company recorded a loss of $0.6 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), as a 0.3% increase in the discount rate used to value the net defined benefit obligations was more than offset by lower than anticipated returns on plan assets. This compared to a gain of $2.8 million (before tax) in the second quarter of 2023 primarily reflecting a 0.1% increase in the discount rate used to value the net defined benefit obligations combined with higher than anticipated returns on plan assets. In the third quarter of 2022, the Company recorded a loss of $2.5 million (before tax), largely reflecting a 0.2% decrease in the discount rate used to value the employee future benefit plans, partially offset by higher than anticipated returns 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)	**Q3 2023**	Q2 2023	**YTD 2023**	Q3 2022	YTD 2022
Increase (decrease) in cash and cash equivalents	**$ (8.6)**	$ 8.6	**$ (14.7)**	$ (2.6)	$ (66.8)
Operating activities	**$ (15.3)**	$ 27.2	**$ 16.2**	$ 12.8	$ 6.7
Financing activities	**$ 23.2**	$ (8.6)	**$ 7.4**	$ 13.0	$ 10.9
Investing activities	**$ (16.5)**	$ (10.0)	**$ (38.3)**	$ (28.4)	$ (84.4)
Ratio of current assets to current liabilities	**1.0:1**	1.3:1	**1.0:1**	2.0:1	2.0:1
Net debt to capitalization[10]	**18.9%**	10.8%	**18.9%**	10.5%	10.5%

[10] 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 used for operating activities in the third quarter of 2023 was $15.3 million, compared to cash generated of $27.2 million in the second quarter of 2023 and $12.8 million in the third quarter of 2022. The $42.5 million reduction in operating cash flows compared to the previous quarter was largely due to unfavourable movements in non-cash working capital, and, to a lesser extent, lower cash earnings in the current quarter. The former was primarily driven by a timing-related decrease in accounts payable and accrued liabilities at the end of the current period. Compared to the third quarter of 2022, the $28.1 million decline in operating cash flows largely reflected reduced cash earnings in the current period, offset in part by favourable movements in non-cash working capital quarter-over-quarter.

Financing Activities

Cash generated from financing activities in the third quarter of 2023 was $23.2 million, compared to cash used of $8.6 million in the second quarter of 2023 and cash generated of $13.0 million in the third quarter of 2022. Cash generated from financing activities in the current quarter principally reflected a $26.1 million draw-down on the Company's operating loan facility, partially offset by interest expense in the current quarter. Financing activities in the second quarter of 2023 were comprised of the conversion of the Company's $50.0 million term debt into its existing operating loan facility, a $5.0 million net repayment of the operating loan facility, and financing fees associated with letters of credit. Cash generated for financing activities in the third quarter of 2022 principally reflected a $15.0 million draw-down of the Company's principal operating loan facility.

Investing Activities

Cash used for investing activities of $16.5 million in the current quarter, $10.0 million in the second quarter of 2023, and $28.4 million in the third quarter of 2022 was largely associated with maintenance-of-business capital spend, including Northwood's scheduled maintenance outage and inspection of recovery boiler number one.

Liquidity and Financial Requirements

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

At September 30, 2023, the Company had a $160.0 million unsecured operating loan facility, with $81.1 million drawn and $13.0 million reserved for several standby letters of credit, leaving $65.9 million available and undrawn on its operating loan facility at the end of the quarter.

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization, and is based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar floating rate, plus a margin. The operating loan facility is repayable on May 2, 2027 and has certain financial covenants, including a maximum debt to total capitalization ratio.

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

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

As at September 30, 2023, the Company had net debt of $81.1 million and available liquidity of $145.9 million, of which $80.0 million relates to the non-revolving term debt and is restricted for use on the re-investment of Northwood's RB1.

OUTLOOK

Pulp and Paper Markets

Looking forward, global softwood pulp markets are anticipated to experience a slight improvement in the fourth quarter of 2023, as elevated inventory levels slowly begin to normalize following the seasonally slower summer months. These factors are projected to be tempered by general global economic uncertainty and pressures.

The Company's results in the fourth quarter of 2023 will reflect the aforementioned operational challenges at Northwood associated with the delayed startup, with a projected 30,000 tonnes of reduced NBSK pulp production, combined with higher associated maintenance costs and lower shipment volumes. These factors are also anticipated to give rise to a larger-than-normal unfavourable timing lag in shipments (vs orders) and thus it is estimated that fourth quarter results will reflect persistently lower NBSK pulp sales unit realizations, regardless of any uptick in US-dollar NBSK list prices that may arise.

While no major maintenance outages are planned at the Company's operations in the fourth quarter of 2023, given the ongoing uncertainty with regards to the availability of economically viable fibre in BC, and a projected weaker North American lumber market, the Company anticipates a challenging fibre supply environment for its pulp mills (both for sawmill residual chips and whole-log chips). The Company will continue to monitor operating conditions and will adjust operating rates, to align with economically viable fibre supply, through the balance of 2023 and into 2024.

Bleached kraft paper markets are anticipated to continue to soften through the balance of 2023, particularly in North America, as tepid demand is combined with above-average paper inventory levels.

OUTSTANDING SHARES

As at September 30, 2023 and November 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 September 30, 2023, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2022 annual statutory reports, which are available on www.canfor.com or 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

	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 188.8**	$ 249.5	$ 243.3	$ 268.1	$ 308.3	$ 288.9	$ 220.3	$ 249.3
Operating income (loss) before amortization, asset write-down and impairment[11]	**$ (27.7)**	$ (15.3)	$ (0.6)	$ (15.1)	$ 46.7	$ 15.7	$ (5.9)	$ (19.6)
Operating income (loss)	**$ (49.3)**	$ (37.9)	$ (25.2)	$ (91.1)	$ 19.2	$ (8.1)	$ (26.0)	$ (137.2)
Net income (loss)	**$ (35.7)**	$ (28.4)	$ (18.8)	$ (69.8)	$ 16.3	$ (5.7)	$ (19.9)	$ (101.1)
Per common share (Canadian dollars)								
Net income (loss) – basic and diluted	**$ (0.55)**	$ (0.44)	$ (0.29)	$ (1.07)	$ 0.25	$ (0.09)	$ (0.31)	$ (1.55)
Book value[12]	**$ 5.34**	$ 5.89	$ 6.29	$ 6.55	$ 7.65	$ 7.43	$ 7.39	$ 7.59
Statistics								
Pulp shipments (000 mt)	**142**	179	152	170	199	205	176	216
Paper shipments (000 mt)	**30**	32	35	32	32	34	31	27
Average exchange rate – US$/Cdn$	**$ 0.746**	$ 0.745	$ 0.740	$ 0.736	$ 0.766	$ 0.783	$ 0.790	$ 0.794
Average NBSK pulp list price delivered to China (US$)	**$ 680**	$ 668	$ 891	$ 920	$ 969	$ 1,008	$ 899	$ 723

[11] 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.

[12] 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)	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Net income (loss), as reported	**$ (35.7)**	$ (28.4)	$ (18.8)	$ (69.8)	$ 16.3	$ (5.7)	$ (19.9)	$ (101.1)
Asset write-down and impairment, net of tax	**$ -**	$ -	$ -	$ 36.2	$ -	$ -	$ -	$ 69.4
Adjusted net income (loss)[13]	**$ (35.7)**	$ (28.4)	$ (18.8)	$ (33.6)	$ 16.3	$ (5.7)	$ (19.9)	$ (31.7)
Net income (loss) per share (EPS), as reported	**$ (0.55)**	$ (0.44)	$ (0.29)	$ (1.07)	$ 0.25	$ (0.09)	$ (0.31)	$ (1.55)
Net impact of above items per share	**$ -**	$ -	$ -	$ 0.55	$ -	$ -	$ -	$ 1.06
Adjusted net income (loss) per share[13]	**$ (0.55)**	$ (0.44)	$ (0.29)	$ (0.52)	$ 0.25	$ (0.09)	$ (0.31)	$ (0.49)

[13] 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)	**Q3 2023**	Q2 2023	Q3 2022
Operating income (loss)	**$ (49.3)**	$ (37.9)	$ 19.2
Inventory write-down (recovery), net	**$ (2.0)**	$ 6.9	$ (1.1)
Adjusted operating income (loss)	**$ (51.3)**	$ (31.0)	$ 18.1
Amortization	**$ 21.6**	$ 22.6	$ 27.5
Adjusted operating income (loss) before amortization	**$ (29.7)**	$ (8.4)	$ 45.6

(millions of Canadian dollars, except ratios)	**Q3 2023**	Q2 2023	Q3 2022
Operating income (loss)	**$ (49.3)**	$ (37.9)	$ 19.2
Other income, net	**$ 2.5**	$ 3.7	$ -
Return	**$ (46.8)**	$ (34.2)	$ 19.2
Average invested capital[14]	**$ 499.9**	$ 553.5	$ 671.0
Return on invested capital (ROIC)	**(9.4)%**	(6.2)%	2.9%

[14] 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 September 30, 2023**	As at December 31, 2022	As at September 30, 2022
Term-debt	**$ -**	$ 50.0	$ 50.0
Operating loan	**$ 81.1**	$ 15.0	$ 15.0
Less: Cash and cash equivalents	**$ -**	$ 14.7	$ 6.5
Net debt	**$ 81.1**	$ 50.3	$ 58.5
Total equity	**$ 348.1**	$ 427.4	$ 499.1
Total capitalization	**$ 429.2**	$ 477.7	$ 557.6
Net debt to total capitalization	**18.9%**	10.5%	10.5%

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at September 30, 2023**		As at December 31, 2022
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**-**	$	14.7
Trade receivables		**50.4**		82.4
Other receivables		**5.8**		5.2
Income taxes recoverable		**0.9**		2.3
Inventories (Note 2)		**148.8**		183.2
Prepaid expenses and other		**15.3**		26.6
Total current assets		**221.2**		314.4
Property, plant and equipment and intangible assets		**419.2**		431.4
Right-of-use assets		**1.7**		1.8
Other long-term assets		**7.5**		8.4
Total assets	**$**	**649.6**	$	756.0
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**138.7**	$	150.1
Operating loan (Note 3(a))		**81.1**		15.0
Current portion of lease obligations		**0.6**		0.9
Total current liabilities		**220.4**		166.0
Term debt (Note 3(b))		**-**		50.0
Retirement benefit obligations (Note 4)		**41.2**		48.4
Lease obligations		**2.0**		1.9
Other long-term provisions		**12.6**		6.9
Deferred income taxes, net		**25.3**		55.4
Total liabilities	**$**	**301.5**	$	328.6
EQUITY				
Share capital	**$**	**480.8**	$	480.8
Accumulated deficit		**(132.7)**		(53.4)
Total equity	**$**	**348.1**	$	427.4
Total liabilities and equity	**$**	**649.6**	$	756.0

Subsequent Event (Note 9)

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

APPROVED BY THE BOARD

Director, N.J. Mayr

Director, The Hon. J.R. Baird

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

(millions of Canadian dollars, except per share data, unaudited)	3 months ended September 30, **2023**	3 months ended September 30, 2022	9 months ended September 30, **2023**	9 months ended September 30, 2022
Sales	**$ 188.8**	$ 308.3	**$ 681.6**	$ 817.5
Costs and expenses				
Manufacturing and product costs	**184.8**	216.3	**613.0**	631.8
Freight and other distribution costs	**25.2**	36.8	**87.9**	105.7
Amortization	**21.6**	27.5	**68.8**	71.4
Selling and administration costs	**6.5**	7.1	**21.1**	20.4
Restructuring costs	**-**	1.4	**3.2**	3.1
	238.1	289.1	**794.0**	832.4
Operating income (loss)	**(49.3)**	19.2	**(112.4)**	(14.9)
Finance expense, net	**(3.3)**	(2.1)	**(9.6)**	(4.7)
Other income, net (Note 10)	**3.2**	5.2	**8.5**	6.8
Net income (loss) before income taxes	**(49.4)**	22.3	**(113.5)**	(12.8)
Income tax recovery (expense) (Note 5)	**13.7**	(6.0)	**30.6**	3.5
Net income (loss)	**$ (35.7)**	$ 16.3	**$ (82.9)**	$ (9.3)
Net income (loss) per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 6)	**$ (0.55)**	$ 0.25	**$ (1.27)**	$ (0.14)

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 September 30, 2023	2022	9 months ended September 2023	2022
Net income (loss)	**$ (35.7)**	$ 16.3	**$ (82.9)**	$ (9.3)
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to net income (loss):				
Defined benefit plan actuarial gains (losses), net (Note 4)	**(0.6)**	(2.5)	**4.9**	18.3
Income tax recovery (expense) on defined benefit plan actuarial gains (losses), net (Note 5)	**0.2**	0.7	**(1.3)**	(4.9)
Other comprehensive income (loss), net of tax	**(0.4)**	(1.8)	**3.6**	13.4
Total comprehensive income (loss)	**$ (36.1)**	$ 14.5	**$ (79.3)**	$ 4.1

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2023	2022	9 months ended September 2023	2022
Share capital				
Balance at beginning and end of period	**$ 480.8**	$ 480.8	**$ 480.8**	$ 480.8
Retained earnings (accumulated deficit)				
Balance at beginning of period	**$ (96.6)**	$ 3.8	**$ (53.4)**	$ 14.2
Net income (loss)	**(35.7)**	16.3	**(82.9)**	(9.3)
Other comprehensive income (loss), net of tax	**(0.4)**	(1.8)	**3.6**	13.4
Balance at end of period	**$ (132.7)**	$ 18.3	**$ (132.7)**	$ 18.3
Total equity	**$ 348.1**	$ 499.1	**$ 348.1**	$ 499.1

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2023**	2022	9 months ended September 30, **2023**	2022
Cash generated from (used in):				
Operating activities				
Net income (loss)	**$ (35.7)**	$ 16.3	**$ (82.9)**	$ (9.3)
Items not affecting cash:				
Amortization	**21.6**	27.5	**68.8**	71.4
Income tax expense (recovery) (Note 5)	**(13.7)**	6.0	**(30.6)**	(3.5)
Employee future benefits expense	**0.2**	0.9	**1.2**	2.5
Finance expense, net	**3.3**	2.1	**9.6**	4.7
Restructuring costs	**-**	1.4	**3.2**	3.1
Other, net	**5.7**	0.4	**6.8**	(0.2)
Defined benefit plan contributions, net	**(0.8)**	(0.9)	**(5.0)**	(2.6)
Income taxes received (paid), net	**1.3**	(0.4)	**0.6**	(3.6)
	(18.1)	53.3	**(28.3)**	62.5
Net change in non-cash working capital (Note 7)	**2.8**	(40.5)	**44.5**	(55.8)
	(15.3)	12.8	**16.2**	6.7
Financing activities				
Operating loan drawings, net (Note 3(a))	**26.1**	15.0	**66.1**	15.0
Conversion of term debt to operating loan	**-**	-	**(50.0)**	-
Repayment of lease obligations	**(0.1)**	(0.3)	**(0.5)**	(0.7)
Finance expenses paid	**(2.8)**	(1.7)	**(8.2)**	(3.4)
	23.2	13.0	**7.4**	10.9
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(16.6)**	(28.5)	**(38.6)**	(84.6)
Other, net	**0.1**	0.1	**0.3**	0.2
	(16.5)	(28.4)	**(38.3)**	(84.4)
Decrease in cash and cash equivalents*	**(8.6)**	(2.6)	**(14.7)**	(66.8)
Cash and cash equivalents at beginning of period*	**8.6**	9.1	**14.7**	73.3
Cash and cash equivalents at end of period*	**$ -**	$ 6.5	**$ -**	$ 6.5

*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.

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 September 30, 2023 and November 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 or www.sedar.com.

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

2. Inventories

(millions of Canadian dollars, unaudited)	**As at September 30, 2023**	As at December 31, 2022
Pulp	**$ 42.0**	$ 66.6
Paper	**27.1**	29.6
Wood chips and logs	**23.9**	27.5
Materials and supplies	**55.8**	59.5
	$ 148.8	$ 183.2

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended September 30, 2023, a $2.0 million reversal of a previously recognized inventory write-down was recorded (nine months ended September 30, 2023 – $8.5 million net write-down expense). For the three months ended September 30, 2022, a $1.1 million reversal of a previously recognized inventory write-down was recognized (nine months ended September 30, 2022 – $1.7 million net write-down recovery). At September 30, 2023, an inventory provision of $10.9 million has been recognized for finished pulp, wood chips and logs (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)	**As at September 30, 2023**	As at December 31, 2022
Operating loan facility	**$ 160.0**	$ 110.0
Letters of credit	**(13.0)**	(12.9)
Operating loan facility drawn	**(81.1)**	(15.0)
Total available operating loan facility	**$ 65.9**	$ 82.1

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

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

(b) Term Debt

The Company's $80.0 million non-revolving term debt, which is restricted for use on the continued re-investment in the Company's facilities, specifically Northwood Northern Bleached Softwood Kraft pulp mill's ("Northwood") recovery boiler number one ("RB1"), has a maturity date of May 2, 2027, with interest payable at floating interest rates consistent with its operating loan facility. As at September 30, 2023, this non-revolving term debt remains undrawn.

4. Retirement Benefit Obligations

For the three months ended September 30, 2023, actuarial losses of $0.6 million (before tax) were recognized in other comprehensive income (loss) in relation to the Company's net defined benefit obligations (comprised of defined benefit plans as well as other benefit plans), as a 0.3% increase in the discount rate used to value the net defined benefit obligations was more than offset by lower than anticipated returns on plan assets. For the nine months ended September 30, 2023, actuarial gains of $4.9 million (before tax) were recognized in other comprehensive income (loss).

For the three months ended September 30, 2022, actuarial losses of $2.5 million (before tax) were recognized in other comprehensive income (loss), reflecting a 0.2% decrease in the discount rate used to value the net defined benefit obligations, offset in part by higher than anticipated returns on plan assets. For the nine months ended September 30, 2022, actuarial gains of $18.3 million (before tax) were recognized in other comprehensive income (loss).

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

	Defined Benefit Pension Plans	**Other Benefit Plans**
September 30, 2023	**5.2%**	**5.2%**
June 30, 2023	4.9%	4.9%
December 31, 2022	4.8%	4.8%
September 30, 2022	4.8%	4.8%
June 30, 2022	5.0%	5.0%
December 31, 2021	3.0%	3.0%

5. Income Taxes

The components of income tax recovery (expense) are as follows:

	3 months ended September 30,		9 months ended September 30,	
(millions of Canadian dollars, unaudited)	**2023**	2022	**2023**	2022
Current	**$ (0.2)**	$ (0.2)	**$ (0.8)**	$ 6.2
Deferred	**13.9**	(5.8)	**31.4**	(2.7)
Income tax recovery (expense)	**$ 13.7**	$ (6.0)	**$ 30.6**	$ 3.5

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

	3 months ended September 30,		9 months ended September 30,	
(millions of Canadian dollars, unaudited)	**2023**	2022	**2023**	2022
Income tax recovery (expense) at statutory rate of 27.0% (2022 – 27.0%)	**$ 13.3**	$ (6.1)	**$ 30.6**	$ 3.4
Add:				
Entities with different income tax rates and other tax adjustments	**-**	0.1	**0.1**	0.1
Permanent difference from capital gains and losses and other non-deductible items	**0.4**	-	**(0.1)**	-
Income tax recovery (expense)	**$ 13.7**	$ (6.0)	**$ 30.6**	$ 3.5

In addition to the amounts recorded to net income (loss), an income tax recovery of $0.2 million and a tax expense of $1.3 million were recorded to other comprehensive income (loss) in relation to actuarial losses and gains on the Company's defined benefit plans for the three and nine months ended September 30, 2023, respectively (three and nine months ended September 30, 2022 – $0.7 million recovery and $4.9 million expense, respectively).

6. Earnings (Loss) Per Common Share

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

	3 months ended September 30,		9 months ended September 30,	
	2023	2022	**2023**	2022
Weighted average number of common shares	**65,233,559**	65,233,559	**65,233,559**	65,233,559

As at September 30, 2023 and November 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

	3 months ended September 30,		9 months ended September 30,	
(millions of Canadian dollars, unaudited)	**2023**	2022	**2023**	2022
Accounts receivable	**$ 6.0**	$ (27.0)	**$ 31.4**	$ (47.6)
Inventories	**9.7**	9.3	**28.3**	4.1
Prepaid expenses and other	**6.0**	(15.2)	**10.3**	(13.7)
Accounts payable and accrued liabilities	**(18.9)**	(7.6)	**(25.5)**	1.4
Net change in non-cash working capital	**$ 2.8**	$ (40.5)	**$ 44.5**	$ (55.8)

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
3 months ended September 30, 2023					
Sales from contracts with customers	**$ 142.3**	**$ 46.5**	**$ -**	**$ -**	**$ 188.8**
Sales to other segments	**22.9**	**-**	**-**	**(22.9)**	**-**
Operating income (loss)	**(50.8)**	**4.4**	**(2.9)**	**-**	**(49.3)**
Amortization	**20.9**	**0.6**	**0.1**	**-**	**21.6**
Capital expenditures[1]	**15.9**	**0.5**	**0.2**	**-**	**16.6**
3 months ended September 30, 2022					
Sales from contracts with customers	$ 258.9	$ 49.4	$ -	$ -	$ 308.3
Sales to other segments	34.7	-	-	(34.7)	-
Operating income (loss)	18.6	4.1	(3.5)	-	19.2
Amortization	26.9	0.5	0.1	-	27.5
Capital expenditures[1]	27.8	-	0.7	-	28.5
9 months ended September 30, 2023					
Sales from contracts with customers	**$ 527.3**	**$ 154.3**	**$ -**	**$ -**	**$ 681.6**
Sales to other segments	**81.7**	**-**	**-**	**(81.7)**	**-**
Operating income (loss)	**(111.2)**	**8.4**	**(9.6)**	**-**	**(112.4)**
Amortization	**67.0**	**1.7**	**0.1**	**-**	**68.8**
Capital expenditures[1]	**37.4**	**0.7**	**0.5**	**-**	**38.6**
Total assets	**570.6**	**71.5**	**7.5**	**-**	**649.6**
9 months ended September 30, 2022					
Sales from contracts with customers	$ 672.1	$ 145.4	$ -	$ -	$ 817.5
Sales to other segments	91.0	-	-	(91.0)	-
Operating income (loss)	(21.8)	16.3	(9.4)	-	(14.9)
Amortization	69.8	1.5	0.1	-	71.4
Capital expenditures[1]	82.4	0.6	1.6	-	84.6
Total assets	769.1	69.0	26.2	-	864.3

[1]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 September 30, **2023**			2022			9 months ended September 30, **2023**			2022		
Sales by location of customer												
Canada	**11%**	**$**	**20.0**	8%	$	23.3	**9%**	**$**	**60.7**	8%	$	61.6
Asia	**54%**		**102.9**	63%		194.9	**57%**		**392.6**	61%		501.9
United States	**25%**		**47.4**	22%		69.1	**24%**		**162.2**	23%		190.3
Europe	**6%**		**11.2**	5%		13.8	**6%**		**39.1**	5%		40.5
Other	**4%**		**7.3**	2%		7.2	**4%**		**27.0**	3%		23.2
	100%	**$**	**188.8**	100%	$	308.3	**100%**	**$**	**681.6**	100%	$	817.5

9. Related Party Transactions

For the nine months ended September 30, 2023, the Company depended on Canfor to provide approximately 62% (nine months ended September 30, 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 consolidated financial statements of CPPI and are based on agreed-upon amounts between the parties.

Subsequent to quarter-end, the Company and Canfor agreed to an amended Fibre Supply Agreement effective December 1, 2023 for a three-year term. Under the terms of this amended Fibre Supply Agreement, the base price formula has been adjusted to better reflect the broader competitive fibre landscape which is anticipated to result in modestly lower fibre costs to the pulp mills.

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 September 30, **2023**		2022		9 months ended September 30, **2023**		2022	
Transactions								
Purchase of wood chips and other	**$**	**42.5**	$	47.4	**$**	**134.4**	$	135.7

(millions of Canadian dollars, unaudited)	As at September 30, **2023**		As at December 31, 2022	
Balance Sheet				
Included in accounts payable and accrued liabilities	**$**	**9.4**	$	19.0

10. Other Income, Net

During the three and nine months ended September 30, 2023, the Company received insurance proceeds of $2.6 million and $8.8 million, respectively, related to operational downtime experienced at Northwood in recent years, included in 'Other income, net' on the condensed consolidated statement of income (loss).