2023

MANAGEMENT'S DISCUSSION & ANALYSIS

CANFOR PULP PRODUCTS INC.

2023 MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("Canfor Pulp", "CPPI" or "the Company") financial performance for the year ended December 31, 2023 relative to the year ended December 31, 2022, and the financial position of the Company at December 31, 2023. It should be read in conjunction with CPPI's Annual Information Form and its audited consolidated financial statements and accompanying notes for the years ended December 31, 2023 and 2022 (available at www.canfor.com). The financial information contained in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income (Loss) before Amortization, Asset Write-Down and Impairment, Adjusted Operating Income before Amortization, Asset Write-Down and Impairment, and Adjusted Operating Income (Loss) which CPPI considers to be a relevant indicator for measuring trends in the Company's performance and its ability to generate funds to meet its debt repayment and capital expenditure requirements, and to pay dividends. Reference is also made to Adjusted Net Income (Loss) (calculated as Net Income (Loss) less specific items affecting comparability with prior periods – for the full calculation, see reconciliation included in the section "Overview of Consolidated Results – 2023 Compared to 2022") and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization, Asset Write-Down and Impairment, Adjusted Operating Income before Amortization, Asset Write-Down and Impairment, Adjusted Operating Income (Loss) and Adjusted Net Income (Loss) per Share are not generally accepted earnings measures under IFRS and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, CPPI's Operating Income (Loss) before Amortization, Asset Write-Down and Impairment, Adjusted Operating Income before Amortization, Asset Write-Down and Impairment, Adjusted Operating Income (Loss), Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income (Loss) before Amortization, Asset Write-Down and Impairment to Operating Income (Loss) and Adjusted Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in the "Non-IFRS Financial Measures" section of this MD&A.

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at March 5, 2024.

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.

COMPANY OVERVIEW

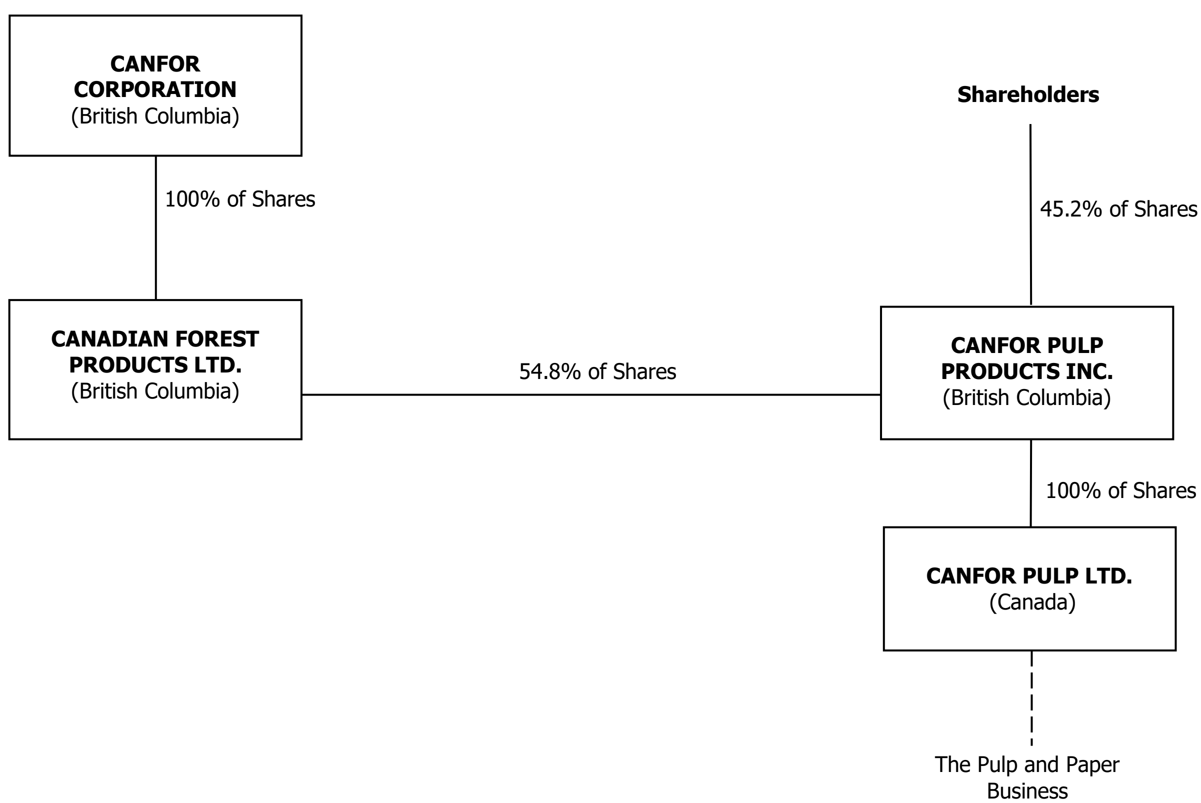
CPPI is a company incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The consolidated financial statements of the Company as at and for the year ended December 31, 2023 comprise the Company and its subsidiary entities. Throughout 2023, the Company's operations consisted of two Northern Bleached Softwood Kraft ("NBSK") pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia ("BC"); a Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill located in Taylor, BC and a marketing group based in Vancouver, BC.

At December 31, 2023, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI, unchanged from December 31, 2022.

CPPI employed 1,004 people in its wholly owned subsidiaries as at December 31, 2023.

The following chart illustrates, on a simplified basis, the ownership structure of CPPI (collectively "the Company") as at December 31, 2023.

Simplified Ownership Structure



Pulp

The Company owns and operates two NBSK pulp mills with an annual production capacity of approximately 780,000 tonnes of northern softwood market kraft pulp, the significant majority of which is bleached to become NBSK pulp, and approximately 140,000 tonnes of kraft paper.

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

The Intercontinental NBSK pulp mill ("Intercon") is a single-line pulp mill with an annual gross production capacity of approximately 320,000 tonnes of NBSK pulp. In April 2023, Intercon was converted to provide slush pulp to the Company's specialty paper facility in Prince George. Following the conversion, Intercon produces approximately 180,000 tonnes of NBSK market pulp annually, which is used to make substantially the same products as that of Northwood, to supply pulp markets in North America, Asia and Europe.

The Prince George NBSK pulp and paper mill ("PG") was an integrated two-line pulp and paper mill with an annual market pulp production capacity of 150,000 tonnes of kraft pulp and approximately 140,000 tonnes of kraft paper. In April 2023, the pulp line at the Company's Prince George pulp and paper mill was permanently closed.

As at December 31, 2023, the Company also owned the Taylor BCTMP mill, located in Taylor, British Columbia. In February 2024, the Company announced that it had entered into an asset purchase agreement to sell its Taylor BCTMP mill site for total proceeds of $7.0 million. The transaction is anticipated to close in the first quarter of 2024.

Paper

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

Business Strategy

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

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

2023 HIGHLIGHTS

2023 was a difficult year for Canfor Pulp, as a deterioration in global pulp market fundamentals was combined with ongoing cost and operational challenges driven by sustained fibre shortages in British Columbia.

With continuing fibre cost pressures and a declining outlook for economic residual fibre in BC, in January 2023, Canfor Pulp made the decision to restructure its operations. As a result, in April 2023, the Company wound down and permanently closed the pulp line at its Prince George NBSK pulp and paper mill. In connection with this closure, the Company's Intercontinental NBSK pulp mill was successfully converted to provide slush pulp to its specialty paper facility, formerly supplied by PG. The combined impact of these operating structure changes is a reduction of approximately 280,000 tonnes of market kraft pulp production annually.

Canfor Pulp reported an operating loss for 2023 of $127.5 million, compared to an operating loss of $106.0 million in 2022. After taking account of adjusting items, including an asset write-down and impairment charge in 2022, the

Company’s adjusted operating loss was $129.9 million for the current year, with adjusted net loss of $1.47 per share, compared to an adjusted operating loss of $58.6 million for the prior year, and adjusted net loss of $0.66 per share.

While global pulp market conditions were positive heading into 2023, market fundamentals experienced a sharp decline late in the first quarter of 2023 and remained challenging through most of the year, as purchasing activity waned and global pulp producer inventories climbed to well above the balanced range. As a result, prices to China, the world’s largest consumer of softwood pulp, dropped from a high of US$913 per tonne in February to a low of US$648 per tonne in June. Late in the year, however, as global producer inventories began to reduce, global pulp pricing saw some modest upward momentum, with China pulp prices finishing the year at US$730 per tonne. For the 2023 year as a whole, NBSK pulp list prices to China averaged US$747 per tonne, a decrease of US$202 per tonne, or 21%, from the average price in 2022.

Operating losses for the pulp segment were $127.2 million in 2023. After taking account of adjusting items, the pulp segment losses for the current year were $129.6 million, compared to an adjusted operating loss of $63.5 million in the previous year. These results largely reflected substantially lower average NBSK pulp unit sales realizations, tied directly to weak global pulp market conditions through most of the year, offset somewhat, by a 3 cent, or 4%, weaker Canadian dollar. Operationally, current year results were impacted by reduced pulp production and shipments associated with the aforementioned operational changes that took effect early in the year. Improved pulp productivity at both Northwood and Intercon year-over-year, however, helped mitigate, to a degree, the impact of the PG pulp mill closure, combined with improved unit manufacturing costs and higher energy revenues in 2023.

The Company’s paper business continued to deliver a solid operational performance in 2023, as the conversion of Intercon to provide slush pulp to the PG specialty paper facility was seamless, with minimal impact on paper production or shipments. Operating earnings, however, declined year-over-year, as tepid demand, particularly in North America, was combined with higher energy costs in the current year, following the closure of the PG pulp mill.

Over the last few years, like other central and northern BC Interior pulp producers, the Company’s supply of sawmill residual chips has been significantly reduced, primarily driven by extensive permanent and indefinite sawmill curtailments in the region. Looking forward, there remains significant uncertainty with regards to the availability of economically viable fibre within BC, especially in the near-term. As a result, the Company continues to anticipate that escalating log cost pressures and transportation costs in BC will translate into a higher cost fibre supply for its pulp mills (both for sawmill residual chips and whole log chips).

Recognizing these increased fibre costs as well as the ongoing uncertainty surrounding fibre availability, the Company permanently closed the pulp line at its Prince George pulp and paper mill and recorded asset write-down and impairment charges in 2021 and 2022 totaling $144.6 million. While the Company did not record any additional asset write-down and impairment charge in 2023, the Company continues to closely monitor the direct and indirect impacts associated with the constraints on economic fibre, especially in the near-term. If the availability of economically viable fibre within BC is further reduced, the Company’s production, shipments and cost structure will be further affected. These factors could impact the Company’s operating plan, liquidity, cash flows and the valuation of long-lived assets.

OVERVIEW OF CONSOLIDATED RESULTS – 2023 COMPARED TO 2022

Selected Financial Information and Statistics

(millions of Canadian dollars, except for per share amounts)		**2023**		2022
Sales	**$**	**875.5**	$	1,085.6
Operating income (loss) before amortization, asset write-down and impairment[1,2]	**$**	**(42.5)**	$	41.4
Operating loss	**$**	**(127.5)**	$	(106.0)
Adjusted operating income (loss) before amortization, asset write-down and impairment[1,2,3]	**$**	**(44.9)**	$	39.2
Adjusted operating loss[3]	**$**	**(129.9)**	$	(58.6)
Net loss	**$**	**(96.1)**	$	(79.1)
Net loss per share, basic and diluted	**$**	**(1.47)**	$	(1.21)
Adjusted net loss[3]	**$**	**(96.1)**	$	(42.9)
Adjusted net loss per share, basic and diluted[3]	**$**	**(1.47)**	$	(0.66)
ROIC – Consolidated[3]		**(22.3)%**		(16.3)%
Average exchange rate (US$ per Cdn$1.00)[4]	**$**	**0.741**	$	0.768

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

Selected Cash Flow Information

(millions of Canadian dollars)		**2023**		2022
Operating income (loss) by segment:				
Pulp	**$**	**(127.2)**	$	(110.9)
Paper	**$**	**11.9**	$	18.2
Unallocated	**$**	**(12.2)**	$	(13.3)
Total operating loss	**$**	**(127.5)**	$	(106.0)
Add: Amortization[5]	**$**	**85.0**	$	97.8
Add: Asset write-down and impairment	**$**	**-**	$	49.6
Total operating income (loss) before amortization, asset write-down and impairment	**$**	**(42.5)**	$	41.4
Add (deduct):				
Working capital movements	**$**	**64.0**	$	(4.0)
Defined benefit plan contributions, net	**$**	**(5.8)**	$	(3.3)
Income taxes received (paid), net	**$**	**1.6**	$	(3.6)
Other operating cash flows, net	**$**	**19.0**	$	14.8
Cash from operating activities	**$**	**36.3**	$	45.3
Add (deduct):				
Capital additions, net	**$**	**(60.5)**	$	(112.6)
Repayment of term debt	**$**	**(50.0)**	$	-
Finance expenses paid	**$**	**(11.4)**	$	(5.8)
Other, net	**$**	**-**	$	(0.5)
Change in cash / operating loans	**$**	**(85.6)**	$	(73.6)

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

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

After-tax impact (millions of Canadian dollars, except for per share amounts)		2023		2022
Net loss, as reported	**$**	**(96.1)**	$	(79.1)
Asset write-down and impairment	**$**	**-**	$	36.2
Adjusted net loss[6]	**$**	**(96.1)**	$	(42.9)
Net loss per share (EPS), as reported	**$**	**(1.47)**	$	(1.21)
Net impact of above items per share	**$**	**-**	$	0.55
Adjusted net loss per share[6]	**$**	**(1.47)**	$	(0.66)

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

OPERATING RESULTS BY BUSINESS SEGMENT – 2023 COMPARED TO 2022

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

CPPI's operations include the Pulp and Paper segments.

Pulp

Selected Financial Information and Statistics – Pulp

Summarized results for the Pulp segment for 2023 and 2022 are as follows:

(millions of Canadian dollars, unless otherwise noted)		2023		2022
Sales	**$**	**673.4**	$	888.7
Operating income (loss) before amortization, asset write-down and impairment[7]	**$**	**(44.8)**	$	34.4
Operating loss	**$**	**(127.2)**	$	(110.9)
Asset write-down and impairment	**$**	**-**	$	49.6
Inventory write-down (recovery)	**$**	**(2.4)**	$	(2.2)
Adjusted operating loss[8]	**$**	**(129.6)**	$	(63.5)
Capital expenditures	**$**	**57.8**	$	110.0
Average NBSK pulp price delivered to China – US$[9]	**$**	**747**	$	949
Average NBSK pulp price delivered to China – Cdn$[9]	**$**	**1,008**	$	1,236
Production – pulp (000 mt)		**603**		718
Shipments – pulp (000 mt)		**609**		750

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

The strong global pulp market fundamentals experienced in the latter part of 2022 continued into the early part of 2023, as a positive pricing environment was primarily driven by global transportation challenges and unplanned global production outages. Pricing came under pressure during the middle of the year, however, as a moderation in purchasing activity from China, the world's largest consumer of pulp, was combined with a notable uplift in global pulp producer inventory levels. Towards the end of the year, as global producer inventories returned to more normalized levels and demand from China improved, global pulp pricing experienced some positive momentum.

As a result of the aforementioned factors, US-dollar NBSK pulp list prices to China began the 2023 year at US$895 per tonne, peaked in February at US$913 per tonne and declined sharply to a low of US$648 per tonne in June. As global pulp market fundamentals, and therefore pricing, improved in the latter part of the year, China pulp prices ended the year at US$730 per tonne. For 2023 overall, US-dollar NBSK pulp list prices to China averaged US$747 per tonne, down US$202 per tonne, or 21%, from the average price in 2022. North American pulp prices experienced similar trends to Asia, with list prices to that region starting the year at US$1,700 per tonne in January, declining to US$1,270 per tonne in August, before recovering to US$1,350 per tonne in December (before taking account of customer discounts, which were broadly unchanged year-over-year).

Global softwood pulp producer inventories began 2023 at 48 days of supply[10] and continued to climb through the first part of the year, reaching 54 days of supply[10] in May. As the year progressed, these elevated producer inventory levels continued until a modest uptick in purchasing activity from China was experienced late in the third quarter and through the fourth quarter of 2023. Consequently, global softwood pulp inventories trended down to within the balanced range through the latter part of 2023, ending the year at 40 days of supply[10]. Market conditions are generally considered balanced when inventories are in the 32-43 days of supply range[10].

The following charts show the China NBSK pulp list price movements in 2023, before taking account of customer discounts and rebates (Chart 1) and global pulp shipments by destination (Chart 2).

Chart 1

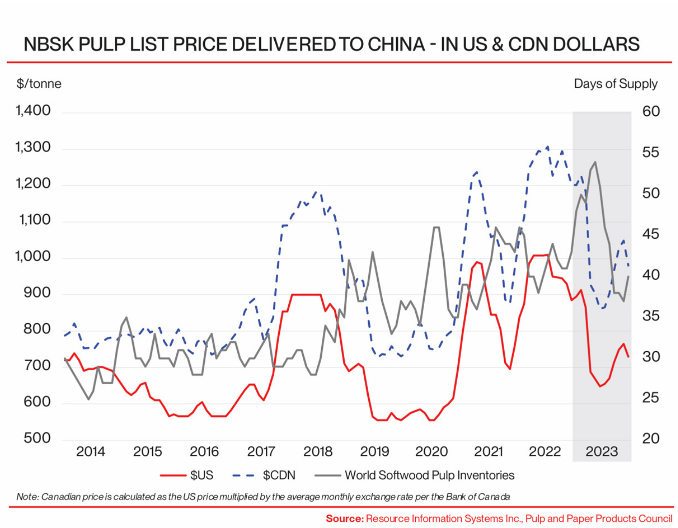
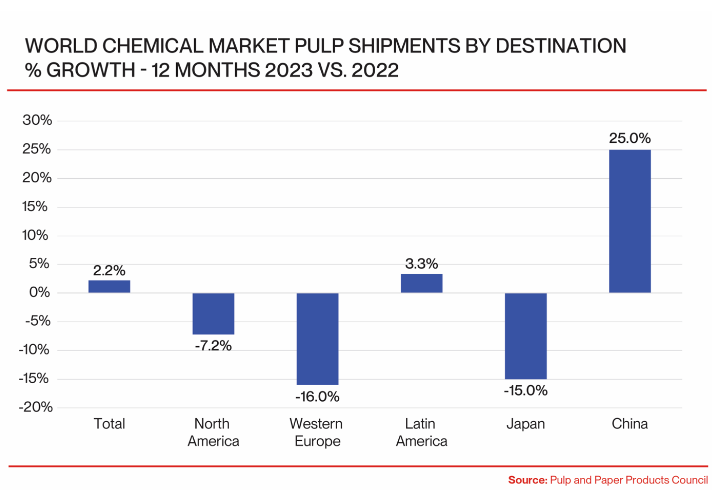


Chart 2



[10] World 20 data is based on twenty producing countries representing 80% of the world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council ("PPPC"). The upper and lower limits of the of the balanced range are the average level plus or minus one standard deviation, based on the last 60 data points (i.e. last five years).

Sales

The Company's pulp shipments in 2023 were 609,000 tonnes, down 141,000 tonnes, or 19%, from 2022, principally driven by a 16% reduction in pulp production year-over-year.

As mentioned, for the 2023 year as a whole, NBSK pulp list prices to China averaged US$747 per tonne, down $202 per tonne, or 21%, compared to the average in 2022. North American NBSK pulp list prices averaged US$1,448 per tonne for the current year, down US$256 per tonne, or 15%, year-over-year (before discounts, which were largely unchanged). As a direct result, the Company's average NBSK pulp unit sales realizations were significantly lower in 2023, offset to a degree, by the 4% weaker Canadian dollar.

Energy revenues in 2023 were up compared to the prior year primarily driven by an improvement in Northwood's pulp productivity year-over-year and the associated increase in its turbine operating days.

Operations

Pulp production was 603,000 tonnes in 2023, down 115,000 tonnes, or 16%, from the prior year, largely reflecting operational footprint changes as a result of ongoing fibre shortages, offset in part by improved NBSK productivity and reduced downtime in the current year.

For 2023 overall, despite the uplift in productivity at both Northwood and Intercon year-over-year, pulp production in the current year continued to be impacted by efficiency and reliability challenges. Sustained fibre shortages weighed heavily on pulp production, as the Company's Intercon pulp mill started the year curtailed, and in April, the Company wound down and permanently closed the pulp line at its PG Pulp and Paper mill. Mid-year, NBSK pulp production was impacted by a labour dispute at the Ports of Vancouver and Prince Rupert. Finally, while Northwood's scheduled maintenance was successfully completed in September, its restart was delayed into the fourth quarter by numerous operational challenges unrelated to the scheduled maintenance downtime. Combined, these factors reduced NBSK pulp production by approximately 420,000 tonnes in 2023, of which the operating structure change associated with the PG pulp line represented approximately 210,000 tonnes in the current year.

In 2022, pulp production was most notably impacted by transportation shortages early in the year, an indefinite curtailment at the Company's Taylor BCTMP mill, as well as temporary fibre-driven production curtailments at the Intercon pulp mill. When combined with Northwood's recovery boiler number one ("RB1") capital upgrade and scheduled maintenance outages at both Northwood and Intercon, NBSK pulp production was reduced by approximately 300,000 tonnes and BCTMP production by approximately 210,000 tonnes in the prior year.

Pulp unit manufacturing costs were moderately lower compared to the prior year, principally tied to a decrease in pulp unit conversion costs associated with reduced energy and maintenance costs, offset, to a degree, by the decline in production year-over-year and slightly higher fibre costs.

Asset Write-Down and Impairment

An impairment expense of $49.6 million was recorded in 2022 on the property, plant, and equipment for the pulp segment, driven by the announced permanent closure of the Company's pulp line at PG, combined with ongoing pressure on fibre costs and continued uncertainty surrounding fibre availability for the Company's pulp mills. The Company did not recognize any additional asset write-down or impairment charge in the current year. See "Critical Accounting Estimates – Asset Write-Down and Impairment" for further details.

Paper

Selected Financial Information and Statistics – Paper

Summarized results for the Paper segment for 2023 and 2022 are as follows:

(millions of Canadian dollars, unless otherwise noted)		**2023**		2022
Sales	**$**	**202.1**	$	196.9
Operating income before amortization[11]	**$**	**14.4**	$	20.2
Operating income	**$**	**11.9**	$	18.2
Capital expenditures	**$**	**2.0**	$	0.6
Production – paper (000 mt)		**130**		132
Shipments – paper (000 mt)		**129**		129

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

Markets

Global bleached kraft paper markets remained solid through the first half of 2023, as steady demand and balanced inventories in the North American market was offset by slight declines in offshore markets. Inflationary pressures and rising global paper inventories, however, led to a softening of global paper markets through most of the second half of 2023, before a slight uptick in North American demand was experienced in December.

Sales

The Company's paper shipments were consistent year-over-year, at 129,000 tonnes. Despite some softening in demand in the North American market during the current year, paper unit sales realizations for 2023 were slightly higher than the prior year, largely reflecting the weaker Canadian dollar.

Operations

Paper production in 2023 was broadly in line with prior year, at 130,000 tonnes. Paper unit manufacturing costs in 2023 were slightly higher, as a decrease in slush pulp costs (linked to lower Canadian dollar NBSK pulp market prices), were more than offset by higher energy costs in the current year following the closure of the Company's PG pulp mill in April 2023, as well as an increase in maintenance spend (timing-related).

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)		**2023**		2022
Corporate costs	**$**	**(12.2)**	$	(13.3)
Finance expense, net	**$**	**(13.2)**	$	(7.3)
Other income, net	**$**	**8.2**	$	5.0

Corporate Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were $12.2 million in 2023, down $1.1 million from 2022, largely reflecting a decline in head office and general and administrative expenses year-over-year.

Finance Expense, Net

Net finance expense for 2023 was $13.2 million, up $5.9 million from 2022. The increase was principally driven by higher financing fees associated with letters of credit, as well as an uplift in interest expense associated with the Company's operating loan facility and non-revolving term debt.

Other Income, Net

Other income, net, of $8.2 million for 2023 largely reflected the receipt of insurance proceeds related to operational downtime experienced at Northwood in recent years, slightly offset by unfavorable foreign exchange movements on US-dollar denominated working capital balances. Other income, net, of $5.0 million for 2022 primarily related to favourable foreign exchange movements on US-dollar denominated working capital balances.

Subsequent to year-end, on March 1, 2024, the Company received insurance proceeds totalling $15.0 million related to operational downtime experienced at Northwood in recent years that will be recognized in 'Other income, net' during the first quarter of 2024.

Income Tax Recovery

The Company recorded an income tax recovery of $36.4 million in 2023 with an overall effective tax rate of 27%.

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

(millions of Canadian dollars)		2023		2022
Net loss before income taxes	**$**	**(132.5)**	$	(108.3)
Income tax recovery at statutory rate of 27% (2022 – 27%)	**$**	**35.8**	$	29.2
Add (deduct):				
Entities with different income tax rates and other tax adjustments		**0.7**		-
Permanent difference from capital gains and losses and other non-deductible items		**(0.1)**		-
Income tax recovery	**$**	**36.4**	$	29.2

In addition, a tax expense of $2.2 million related to actuarial gains, net, on the Company's defined benefit plans was recorded in other comprehensive income for the year ended December 31, 2023 (December 31, 2022 – expense of $4.3 million).

Other Comprehensive Income

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

For 2023, a gain of $8.0 million (before tax) was recorded in other comprehensive income, related to changes in the valuation of the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), as a 0.2% decrease in the discount rate used to value the defined benefit plans was more than offset by a higher than anticipated return on plan assets.

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

For more information, see "Critical Accounting Estimates – Employee Future Benefits" later in this document.

SUMMARY OF FINANCIAL POSITION

The following table summarizes CPPI's financial position as at December 31, 2023 and 2022:

(millions of Canadian dollars, except for ratios)		2023		2022
Cash and cash equivalents	**$**	**21.1**	$	14.7
Operating working capital (includes drawings on operating loan)		**(37.1)**		133.7
Net working capital		**(16.0)**		148.4
Property, plant and equipment and intangible assets		**415.8**		431.4
Other long-term assets		**8.5**		10.2
Net working capital and long-term assets	**$**	**408.3**	$	590.0
Term debt		**-**		50.0
Long-term lease obligations		**1.4**		1.9
Retirement benefit obligations		**39.0**		48.4
Other long-term provisions		**10.2**		6.9
Deferred income taxes, net		**20.6**		55.4
Total equity		**337.1**		427.4
	$	**408.3**	$	590.0
Ratio of current assets to current liabilities		**0.9 : 1**		1.9 : 1
Net debt to total capitalization[12]		**20.3%**		10.5%

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

Reflecting 2023's market conditions, operating rates, as well as the Company's management of working capital, the ratio of current assets to current liabilities at the end of 2023 was 0.9:1, compared to 1.9:1 at the end of 2022. See further discussion in the "Changes in Financial Position" section of this document.

The Company's net debt to capitalization was 20.3% at December 31, 2023 (December 31, 2022 – 10.5%) primarily reflecting the draw-down of the Company's operating loan facility in the current year.

CHANGES IN FINANCIAL POSITION

At the end of 2023, CPPI had $21.1 million of cash and cash equivalents.

(millions of Canadian dollars)		**2023**		2022
Increase (decrease) in cash and cash equivalents	**$**	**6.4**	$	(58.6)
Operating activities	**$**	**36.3**	$	45.3
Financing activities	**$**	**29.9**	$	8.3
Investing activities	**$**	**(59.8)**	$	(112.2)

The changes in the components of these cash flows during 2023 are discussed in the following sections.

Operating Activities

For the 2023 year, CPPI generated cash from operating activities of $36.3 million, down $9.0 million from cash generated of $45.3 million in the previous year. The decline in operating cash flows was principally due to lower cash earnings in the current year, offset in part by favourable movements in non-cash working capital. The latter primarily reflecting improved collections and a drawdown of finished pulp inventory at the end of 2023, tied in part to the closure of the pulp line at PG during the current year.

Financing Activities

In 2023, CPPI generated cash from financing activities of $29.9 million, compared to cash generated of $8.3 million in the prior year. Cash generated from financing activities in 2023 reflected the conversion of the Company's $50.0 million term debt into its existing operating loan facility and a $42.0 million net draw-down of the Company's operating loan facility, partially offset by interest paid on the Company's letters of credit, operating loan facility and non-revolving term debt. Financing activities in 2022 principally comprised a $15.0 million draw-down of the Company's operating loan facility, partially offset by interest paid on the Company's letters of credit, operating loan facility and non-revolving term debt.

Investing Activities

Net cash used for investing activities in 2023 was $59.8 million, compared to $112.2 million used in 2022. Capital expenditures of $60.5 million in 2023 were largely associated with maintenance-of-business capital spend, including Northwood's scheduled maintenance outage and inspection of RB1. In 2022, capital spend was principally comprised of Northwood's RB1 lower furnace capital upgrade combined with maintenance-of-business projects.

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loan and Term Debt

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 December 31, 2023, the Company had a $160.0 million unsecured operating loan facility, with $107.0 million of the facility drawn, and $6.9 million reserved for several standby letters of credit, leaving $46.1 million available and undrawn on its operating loan facility at the end of the year.

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. Refer to the "Debt Covenants" section for further details.

In addition, on May 2, 2023, the Company secured a commitment to receive up to $80.0 million of non-revolving term debt to support the Company's continued re-investment in its facilities, specifically Northwood's RB1. This new non-revolving term debt has a maturity date of May 2, 2027, with interest payable at floating interest rates consistent with its operating loan facility. As at December 31, 2023, this non-revolving term debt remains undrawn.

As at December 31, 2023, the Company had total net debt of $85.9 million, a $35.6 million increase from net debt of $50.3 million at the end of the previous year. As at December 31, 2023, the Company had available liquidity of $147.2 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.

Debt Covenants

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

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

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

Management reviews results and forecasts to monitor the Company's compliance with these covenant requirements. CPPI was fully in compliance with all of its debt covenants for the year ended December 31, 2023 and expects to remain so for the foreseeable future.

Shares Outstanding

As at December 31, 2023 and March 5, 2024, there were 65,233,559 common shares of the Company outstanding, and Canfor's ownership interest in CPPI was 54.8% (December 31, 2022 – 54.8%).

2024 Projected Capital Spending

Based on its current outlook, the Company anticipates that it will invest approximately $40 million in capital projects in 2024 (including costs related to scheduled maintenance outages), with a primary focus on projects aimed at optimizing its reduced operating footprint and improving the reliability of its operations. The Company currently plans to utilize its cash flow from operations and its available cash, operating loans and non-revolving term debt, to finance its capital expenditures during 2024.

Commitments

Contractual obligations the Company is committed to include:

- At December 31, 2023, CPPI has contractual commitments for $27.6 million, reflecting commitments for the construction of capital assets and other working capital items which will be settled in 2024. In addition, CPPI has committed to leases of property, plant and equipment as outlined under Note 6 of CPPI's 2023 consolidated financial statements.
- The Company has energy purchase agreements with a BC energy company (the "Energy Agreements") for all three of the Company's kraft pulp mills. Two of these agreements are for the sale of incremental electrical energy and the third agreement is for load displacement. All agreements include performance guarantees to ensure minimum contractual amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, the Company has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2023, the Company had posted $2.2 million of standby letters of credit under these agreements and had no repayment obligations under the terms of any of these agreements.
- The Company's asset retirement obligations represent estimated undiscounted future payments of $9.3 million to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur at periods ranging from 2 to 28 years and have been discounted at risk-free rates ranging from 3.0% to 3.9%.

CPPI has certain assets that have indeterminable retirement dates and, therefore, there is an indeterminate settlement date for the related asset retirement obligations. As a result, no asset retirement obligations are recorded for these assets. These assets include wastewater and effluent ponds that will have to be drained once the related operating facility is closed and storage sites for which removal of chemicals, fuels and other related materials will be required once the related operating facility is closed. When the retirement dates of these assets become determinable and an estimate can be made, an asset retirement obligation will be recorded. It is possible that changes in future conditions could require a material change in the recognized amount of the asset retirement obligations. The asset retirement obligation balance is included in 'Other long-term provisions' on CPPI's 2023 consolidated balance sheet.

- The Company has obligations to pay defined benefit pension plans and other post-employment benefits, for which a net liability for accounting purposes at December 31, 2023, was $38.8 million. As at December 31, 2023, CPPI estimated that it would make contribution payments of $2.0 million to its defined benefit pension plans in 2024 based on the last actuarial valuation for funding purposes.
- CPPI may have other purchase and contractual obligations in the normal course of business. Purchase obligations of a more substantial dollar amount generally relate to the supply of fibre for the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on the Company's requirements in any given year.

TRANSACTIONS WITH RELATED PARTIES

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

In 2023, the Company depended on Canfor to provide approximately 57% of its fibre supply as well as certain key business and administrative services. As a result of these relationships, the Company considers its operations to be dependent on its ongoing relationship with Canfor. During the fourth quarter of 2023, 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 Company's pulp mills.

The Company purchased wood chips, logs and hog fuel from Canfor sawmills in the amount of $160.9 million in 2023.

Canfor provides certain business and administrative services to the Company under a services agreement. The total amount charged for the services provided by Canfor in 2023 was $21.0 million. This amount is included in 'Manufacturing and product costs', 'Selling and administration costs', and 'Finance expense, net' within CPPI's 2023 consolidated financial statements.

CPPI provides certain business and administrative services to Canfor under an incidental services agreement. The total amount charged for the services provided to Canfor in 2023 was $3.3 million. This amount is included as a cost recovery in 'Manufacturing and product costs' and 'Selling and administration costs.'

At December 31, 2023, an outstanding balance of $40.5 million was owed to Canfor.

The Jim Pattison Group is Canfor's largest shareholder with an ownership interest of 53.6% at December 31, 2023. During 2023, CPPI sold paper to subsidiaries owned by The Jim Pattison Group totaling $4.5 million. CPPI also made purchases from subsidiaries owned by The Jim Pattison Group totaling $0.7 million. At December 31, 2023, no amounts were receivable from subsidiaries owned by the Jim Pattison Group.

Additional details on related party transactions are contained in Note 18 to CPPI's 2023 consolidated financial statements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") STRATEGY, REPORTING AND RELATED RISKS

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

In 2021, as part of this leading role, the Company launched its updated sustainability strategy and Sustainability Report. In 2022, the Company announced its climate ambition to be a net-zero company by 2050 through advancing climate-positive forest management, producing sustainable forest products and developing impactful partnerships.

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

More detailed information on the Company's sustainability strategy and performance is provided in the annual Sustainability Report (to be issued in the second quarter of 2024) and at https://sustainability.canfor.com.

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

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2023	**Q3 2023**	**Q2 2023**	**Q1 2023**	**Q4 2022**	**Q3 2022**	**Q2 2022**	**Q1 2022**
Sales and income (loss) (millions of Canadian dollars, unless otherwise noted)								
Sales	**$ 193.9**	**$ 188.8**	**$ 249.5**	**$ 243.3**	$ 268.1	$ 308.3	$ 288.9	$ 220.3
Operating income (loss) before amortization, asset write-down and impairment[13]	**$ 1.1**	**$ (27.7)**	**$ (15.3)**	**$ (0.6)**	$ (15.1)	$ 46.7	$ 15.7	$ (5.9)
Operating income (loss)	**$ (15.1)**	**$ (49.3)**	**$ (37.9)**	**$ (25.2)**	$ (91.1)	$ 19.2	$ (8.1)	$ (26.0)
Net income (loss)	**$ (13.2)**	**$ (35.7)**	**$ (28.4)**	**$ (18.8)**	$ (69.8)	$ 16.3	$ (5.7)	$ (19.9)
Per common share (Canadian dollars)								
Net income (loss) per share – basic and diluted	**$ (0.20)**	**$ (0.55)**	**$ (0.44)**	**$ (0.29)**	$ (1.07)	$ 0.25	$ (0.09)	$ (0.31)
Book value per share[14]	**$ 5.17**	**$ 5.34**	**$ 5.89**	**$ 6.29**	$ 6.55	$ 7.65	$ 7.43	$ 7.39
Statistics								
Pulp shipments (000 mt)	**136**	**142**	**179**	**152**	170	199	205	176
Paper shipments (000 mt)	**32**	**30**	**32**	**35**	32	32	34	31
Average exchange rate – US$/Cdn$	**$ 0.734**	**$ 0.746**	**$ 0.745**	**$ 0.740**	$ 0.736	$ 0.766	$ 0.783	$ 0.790
Average NBSK pulp list price delivered to China (US$)	**$ 748**	**$ 680**	**$ 668**	**$ 891**	$ 920	$ 969	$ 1,008	$ 899

[13] Amortization includes amortization of certain capitalized major maintenance costs; includes an asset write-down and impairment charge totaling $49.6 million in Q4 2022.

[14] Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

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

(millions of Canadian dollars)	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Operating income (loss) by segment:								
Pulp	**$ (16.0)**	**$ (50.8)**	**$ (36.0)**	**$ (24.4)**	$ (89.1)	$ 18.6	$ (11.1)	$ (29.3)
Paper	**$ 3.5**	**$ 4.4**	**$ 0.7**	**$ 3.3**	$ 1.9	$ 4.1	$ 6.2	$ 6.0
Unallocated	**$ (2.6)**	**$ (2.9)**	**$ (2.6)**	**$ (4.1)**	$ (3.9)	$ (3.5)	$ (3.2)	$ (2.7)
Total operating income (loss)	**$ (15.1)**	**$ (49.3)**	**$ (37.9)**	**$ (25.2)**	$ (91.1)	$ 19.2	$ (8.1)	$ (26.0)
Add: Amortization[15]	**$ 16.2**	**$ 21.6**	**$ 22.6**	**$ 24.6**	$ 26.4	$ 27.5	$ 23.8	$ 20.1
Add: Asset write-down and impairment	**$ -**	**$ -**	**$ -**	**$ -**	$ 49.6	$ -	$ -	$ -
Total operating income (loss) before amortization, asset write-down and impairment	**$ 1.1**	**$ (27.7)**	**$ (15.3)**	**$ (0.6)**	$ (15.1)	$ 46.7	$ 15.7	$ (5.9)
Add (deduct):								
Working capital movements	**$ 19.5**	**$ 2.8**	**$ 41.5**	**$ 0.2**	$ 51.8	$ (40.5)	$ 16.3	$ (31.6)
Defined benefit pension plan contributions	**$ (0.8)**	**$ (0.8)**	**$ (3.3)**	**$ (0.9)**	$ (0.7)	$ (0.9)	$ (0.7)	$ (1.0)
Income taxes received (paid), net	**$ 1.0**	**$ 1.3**	**$ 0.1**	**$ (0.8)**	$ -	$ (0.4)	$ (1.0)	$ (2.2)
Other operating cash flows, net	**$ (0.7)**	**$ 9.1**	**$ 4.2**	**$ 6.4**	$ 2.6	$ 7.9	$ 3.6	$ 0.7
Cash from (used in) operating activities	**$ 20.1**	**$ (15.3)**	**$ 27.2**	**$ 4.3**	$ 38.6	$ 12.8	$ 33.9	$ (40.0)
Add (deduct):								
Capital additions, net	**$ (21.6)**	**$ (16.6)**	**$ (10.3)**	**$ (12.0)**	$ (28.0)	$ (28.5)	$ (37.7)	$ (18.4)
Repayment of term debt	**$ -**	**$ -**	**$ (50.0)**	**$ -**	$ -	$ -	$ -	$ -
Finance expenses paid	**$ (3.2)**	**$ (2.8)**	**$ (3.4)**	**$ (2.0)**	$ (2.4)	$ (1.7)	$ (1.1)	$ (0.6)
Other, net	**$ (0.1)**	**$ -**	**$ 0.1**	**$ -**	$ -	$ (0.2)	$ (0.2)	$ (0.1)
Change in cash / operating loans	**$ (4.8)**	**$ (34.7)**	**$ (36.4)**	**$ (9.7)**	$ 8.2	$ (17.6)	$ (5.1)	$ (59.1)

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

THREE-YEAR COMPARATIVE REVIEW

(millions of Canadian dollars, except per share amounts)	2023	2022	2021
Sales	**$ 875.5**	$ 1,085.6	$ 1,144.9
Net loss	**$ (96.1)**	$ (79.1)	$ (44.4)
Total assets	**$ 675.8**	$ 756.0	$ 841.7
Term debt	**$ -**	$ 50.0	$ 50.0
Net loss per share, basic and diluted	**$ (1.47)**	$ (1.21)	$ (0.68)

FOURTH QUARTER RESULTS

Overview

The Company reported an operating loss of $15.1 million for the fourth quarter of 2023, compared to an operating loss of $49.3 million for the third quarter of 2023. After taking account of a net $10.9 million reversal of a previously recognized inventory write-down, the Company's adjusted operating loss was $26.0 million for the fourth quarter of 2023, a $25.3 million improvement compared to an adjusted operating loss of $51.3 million for the previous quarter. These results largely reflected a moderate improvement in global pulp market conditions, combined with a 20% increase in pulp production quarter-over-quarter.

Compared to the fourth quarter of 2022, adjusted operating results increased $16.0 million, as significantly lower US-dollar NBSK pulp list prices in the current quarter, as well as reduced pulp production and shipment volumes, were more than offset by the benefit of substantially lower pulp unit manufacturing costs, which included a notable decline in fibre costs quarter-over-quarter.

An overview of the results by business segment for the fourth quarter of 2023 compared to the third quarter of 2023 and the fourth quarter of 2022 follows.

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)		**Q4 2023**		Q3 2023		Q4 2022
Sales	**$**	**146.1**	$	142.3	$	216.6
Operating loss before amortization, asset write-down and impairment[16]	**$**	**(0.6)**	$	(29.9)	$	(13.6)
Operating loss	**$**	**(16.0)**	$	(50.8)	$	(89.1)
Asset write-down and impairment	**$**	**-**	$	-	$	49.6
Inventory write-down (recovery)	**$**	**(10.9)**	$	(2.0)	$	(0.5)
Adjusted operating loss[17]	**$**	**(26.9)**	$	(52.8)	$	(40.0)
Average NBSK pulp price delivered to China – US$[18]	**$**	**748**	$	680	$	920
Average NBSK pulp price delivered to China – Cdn$[18]	**$**	**1,019**	$	912	$	1,250
Production – pulp (000 mt)		**148**		123		160
Shipments – pulp (000 mt)		**136**		142		170

[16] Amortization includes amortization of certain capitalized major maintenance costs.
[17] Adjusted operating income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[18] 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 a relatively weak second and third quarter of 2023, global softwood pulp markets moderately improved in the current quarter, largely reflecting a slight uptick in demand and purchasing activity in most major regions as global pulp producer inventories returned to a more balanced range. As a result, the positive pricing momentum in US-dollar NBSK list prices to China experienced towards the end of the prior quarter, continued well into the current period, with prices peaking in November 2023. For the current quarter overall, average US-dollar NBSK pulp list prices to China were US$748 per tonne, up US$68 per tonne, or 10%, from the previous quarter, but down US$172 per tonne, or 19%, compared to the fourth quarter of 2022. Prices to other global regions experienced more modest increases in the current period, with the average US-dollar NBSK pulp list price to North America at US$1,312 per tonne (before discounts), up US$19 per tonne, or 1%, from the prior quarter. Compared to the fourth quarter of 2022, however, pulp list prices to North America were down US$433 per tonne, or 25%.

Global softwood pulp producer inventories were relatively steady throughout the current quarter and within the balanced range, ending December 2023 at 40 days of supply[19], a two day increase from September 2023. Market conditions are generally considered balanced when inventories are in the 32-43 days of supply range[19].

[19] World 20 data is based on twenty producing countries representing 80% of the world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council ("PPPC"). The upper and lower limits of the of the balanced range are the average level plus or minus one standard deviation, based on the last 60 data points (i.e. last five years).

Sales

The Company's pulp shipments for the fourth quarter of 2023 totaled 136,000 tonnes, down 6,000 tonnes, or 4%, from the previous quarter, principally due to the delayed restart of Northwood at the end of September and into October, impacting shipments early in the current period. This was combined with, to a lesser degree, the replenishment of inventory levels reduced in the prior quarter as a result of the aforementioned late start-up.

Compared to the fourth quarter of 2022, pulp shipments were down 34,000 tonnes, or 20%, primarily reflecting an 8% decline in pulp production quarter-over-quarter, combined with a drawdown of inventory levels in the comparative period as a result of an Intercon fibre-related curtailment late in 2022 as well as the timing of vessels quarter-over-quarter.

The Company's average NBSK pulp unit sales realizations experienced a moderate improvement compared to the previous quarter, principally tied to the 10% increase in US-dollar NBSK pulp list prices to China and a 1 cent, or 2%, weaker Canadian dollar, offset, in part, by an unfavourable timing lag in shipments (versus orders). Compared to the fourth quarter of 2022, the Company's average NBSK pulp unit sales realizations saw a substantial decline, driven by the aforementioned downward pressure on global US-dollar pulp list pricing.

Energy revenues increased compared to both comparative periods, principally driven by the quarter-over-quarter uplift in pulp productivity at Northwood and Intercon, and the correlated benefit on energy generation.

Operations

Pulp production was 148,000 tonnes for the fourth quarter of 2023, up 25,000 tonnes, or 20%, from the third quarter of 2023, largely reflecting improved NBSK productivity in the current period. Following the successful completion of a scheduled maintenance outage in September, the restart of Northwood was delayed into the fourth quarter of 2023, resulting in approximately 30,000 tonnes of reduced NBSK pulp production early in the current period. For the quarter overall however, the operating performance at Northwood and Intercon continued to improve as the quarter progressed, despite some minor challenges with operational reliability, which impacted NBSK production by approximately 10,000 tonnes in the current period.

In the third quarter of 2023, the Company curtailed Northwood for approximately one week as a result of labour disputes at the Ports of Vancouver and Prince Rupert, which reduced NBSK pulp production by approximately 10,000 tonnes. In addition, the scheduled maintenance outage at Northwood was completed as planned, and reduced NBSK pulp production by approximately 25,000 tonnes. While persistent reliability challenges at Northwood and a delayed restart resulted in a further reduction of approximately 30,000 tonnes in the third quarter.

Compared to the fourth quarter of 2022, pulp production was down 12,000 tonnes, or 8%, primarily reflecting operational footprint changes, which took effect in April, offset by reduced downtime and improved NBSK productivity in the current period. In the comparative 2022 period, the operating performance at both Intercon and Northwood were significantly impacted by a shortage of economic fibre and winter conditions in BC. These factors, in combination with the completion of a scheduled maintenance outage at Intercon, reduced NBSK pulp production by approximately 90,000 tonnes in the fourth quarter of 2022.

Pulp unit manufacturing costs experienced a moderate decrease compared to the prior quarter, as seasonally higher energy usage and an increase in chemical costs in the current period were more than offset by the benefit of increased production and lower fibre costs. While the proportion of higher cost whole log chips stayed relatively unchanged quarter-over-quarter, fibre costs were slightly lower than the previous quarter largely due to a reduction in market-based prices for sawmill residual chips (linked to lower Canadian dollar NBSK pulp sales realizations in the prior quarter due to a lag in chip consumption tied to aforementioned downtime at Northwood).

Compared to the fourth quarter of 2022, pulp unit manufacturing costs were substantially lower, mostly attributable due to a decline in fibre costs in the current period, principally tied to lower market-based prices for sawmill residual chips, as well as reduced energy pricing and lower maintenance costs (timing-related).

Asset Write-Down and Impairment

No asset write-down and impairment charge was recorded in the fourth quarter of 2023 on the property, plant and equipment for the pulp segment, whereas results in the fourth quarter of 2022 included an impairment expense of $49.6 million. See "Critical Accounting Estimates – Asset Write-Down and Impairment" for further details.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars, unless otherwise noted)		Q4 2023		Q3 2023		Q4 2022
Sales	**$**	**47.8**	$	46.5	$	51.5
Operating income before amortization[20]	**$**	**4.3**	$	5.0	$	2.4
Operating income	**$**	**3.5**	$	4.4	$	1.9
Production – paper (000 mt)		**34**		32		32
Shipments – paper (000 mt)		**32**		30		32

[20] 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 through most of the fourth quarter of 2023, with an uptick in demand seen in the latter part of the period.

Sales

The Company's paper shipments in the fourth quarter of 2023 were 32,000 tonnes, up 2,000 tonnes from the previous quarter, and consistent with the fourth quarter of 2022, principally tied to the timing of shipments around quarter-end.

Paper unit sales realizations in the fourth quarter of 2023 were slightly lower than the previous quarter, as the decline in global US-dollar paper pricing through most of the current period was largely offset by the 2% weaker Canadian dollar. Compared to the fourth quarter of 2022, paper unit sales realizations experienced a moderate decrease, primarily reflecting weaker US-dollar pricing quarter-over quarter.

Operations

Paper production for the fourth quarter of 2023 was 34,000 tonnes, an increase of 2,000 tonnes compared to both comparative periods, principally driven by improved productivity.

Paper unit manufacturing costs were modestly higher than the third quarter of 2023, primarily reflecting notably higher slush pulp costs (associated with increased Canadian dollar average NBSK pulp unit sales realizations) and increased maintenance spend in the current period (timing-related). Compared to the fourth quarter of 2022, paper unit manufacturing costs saw a substantial decrease, driven by lower slush pulp costs (tied to decreased Canadian dollar NBSK pulp unit sales realizations), offset by higher chemicals, maintenance and energy costs quarter-over-quarter.

Unallocated Items

(millions of Canadian dollars)		Q4 2023		Q3 2023		Q4 2022
Corporate costs	**$**	**(2.6)**	$	(2.9)	$	(3.9)
Finance expense, net	**$**	**(3.6)**	$	(3.3)	$	(2.6)
Other income (expense), net	**$**	**(0.3)**	$	3.2	$	(1.8)

Corporate costs were $2.6 million for the fourth quarter of 2023, down $0.3 million compared with the previous quarter and down $1.3 million compared to the fourth quarter of 2022, largely reflecting a decrease in head office and general administrative expenses in the current period.

Net finance expense for the fourth quarter of 2023 was $3.6 million, up $0.3 million compared to the third quarter of 2023 and up $1.0 million compared to the fourth quarter of 2022. These increases were principally driven by higher financing fees associated with letters of credit and an uplift in interest expense associated with the Company's operating loan facility in the current quarter. See the "Liquidity and Financial Requirements" section for further details.

Other expense, net, of $0.3 million in the fourth quarter of 2023 was primarily related to unfavourable foreign exchange movements on US-dollar denominated working capital balances at the end of the current period compared to the end of the prior quarter. Other income, net, of $3.2 million in the third quarter of 2023 largely reflected 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, while other expense, net, of $1.8 million in the fourth quarter of 2022 principally related to unfavourable foreign exchange movements on US-dollar denominated working capital balances.

Subsequent to quarter end, on March 1, 2024, the Company received insurance proceeds totalling $15.0 million related to operational downtime experienced at Northwood in recent years that will be recognized in 'Other income (expense), net' during the first quarter of 2024.

Other Comprehensive Income

In the fourth quarter of 2023, the Company recorded a gain of $3.1 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 0.6% decrease in the discount rate used to value the net defined benefit obligations was more than offset by higher than anticipated returns on plan assets.

This compared to a loss of $0.6 million (before tax) in the third quarter of 2023, largely reflecting lower than anticipated returns on plan assets that more than offset a 0.3% increase in the discount rate used to value the net defined benefit obligations. In the fourth quarter of 2022, the Company recorded a loss of $2.5 million (before tax) related to changes in the valuation of the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), primarily reflecting updated membership data.

Summary of Financial Position

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

(millions of Canadian dollars)		**Q4 2023**		Q3 2023		Q4 2022
Increase (decrease) in cash and cash equivalents	**$**	**21.1**	$	(8.6)	$	8.2
Operating activities	**$**	**20.1**	$	(15.3)	$	38.6
Financing activities	**$**	**22.5**	$	23.2	$	(2.6)
Investing activities	**$**	**(21.5)**	$	(16.5)	$	(27.8)

Operating Activities

Cash generated from operating activities in the fourth quarter of 2023 was $20.1 million, up $35.4 million from the cash used of $15.3 million in the third quarter of 2023 and down $18.5 million from the cash generated of $38.6 million in the fourth quarter of 2022. The $35.4 million increase in operating cash flows compared to the previous quarter was principally due to higher cash earnings in the current quarter combined with favourable movements in non-cash working capital. The latter was primarily driven by a timing-related increase in accounts payable and accrued liabilities at the end of the current period. Compared to the fourth quarter of 2022, the $18.5 million decline in operating cash flows largely reflected unfavourable movements in non-cash working capital quarter-over-quarter, offset by an improvement in cash earnings in the current period.

Financing Activities

Cash generated from financing activities in the fourth quarter of 2023 of $22.5 million was broadly in line with the third quarter of 2023, and up $25.1 million from the cash used of $2.6 million in the fourth quarter of 2022. Cash generated from financing activities in the current and prior quarter primarily reflected draw-downs on the Company's operating loan facility ($25.9 million in fourth quarter and $26.1 million in the third quarter of 2023), partially offset by interest expense. Financing activities in the fourth quarter of 2022 were largely comprised of interest expense associated with the Company's operating loan facility and non-revolving term debt, combined with financing fees associated with letters of credit.

Investing Activities

Cash used for investing activities of $21.5 million in the current quarter as well as both comparative periods was principally associated with maintenance-of-business capital spend.

SPECIFIC ITEMS AFFECTING COMPARABILITY

Specific Items Affecting Comparability of Net Income (Loss)

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

After-tax impact (millions of Canadian dollars, except for per share amounts)	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Net income (loss), as reported	**$ (13.2)**	**$ (35.7)**	**$ (28.4)**	**$ (18.8)**	$ (69.8)	$ 16.3	$ (5.7)	$ (19.9)
Asset write-down and impairment	**$ -**	**$ -**	**$ -**	**$ -**	$ 36.2	$ -	$ -	$ -
Adjusted net income (loss)[21]	**$ (13.2)**	**$ (35.7)**	**$ (28.4)**	**$ (18.8)**	$ (33.6)	$ 16.3	$ (5.7)	$ (19.9)
Net income (loss) per share, as reported	**$ (0.20)**	**$ (0.55)**	**$ (0.44)**	**$ (0.29)**	$ (1.07)	$ 0.25	$ (0.09)	$ (0.31)
Net impact of above items per share	**$ -**	**$ -**	**$ -**	**$ -**	$ 0.55	$ -	$ -	$ -
Adjusted net income (loss) per share[21]	**$ (0.20)**	**$ (0.55)**	**$ (0.44)**	**$ (0.29)**	$ (0.52)	$ 0.25	$ (0.09)	$ (0.31)

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

OUTLOOK

Pulp Markets

Looking forward, global softwood kraft pulp markets are projected to be fairly subdued through the first quarter of 2024. While global pulp producer inventories are estimated to remain within the balanced range, demand uncertainty is anticipated, driven principally by the deceleration in China NBSK pulp list prices in December and leading up to the seasonally slower spring period in China.

The Company has no major maintenance outages planned for the first quarter of 2024. In the second quarter of 2024, a maintenance outage is scheduled at Intercon, with a projected 5,000 tonnes of reduced NBSK market pulp production.

Given the ongoing uncertainty with regards to the availability of economically viable fibre in BC, and a projected weak 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), especially in the near-term. The Company will continue to monitor operating conditions and will adjust operating rates at its pulp mills to align with economically viable fibre supply.

Paper Markets

Bleached kraft paper markets are projected to remain solid through the first quarter of 2024 as the uptick in global paper demand towards the end of 2023 is anticipated to continue. A maintenance outage is currently planned at the Company's paper machine in the second quarter of 2024 with a projected 5,000 tonnes of reduced paper production.

NON-IFRS FINANCIAL MEASURES

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

(millions of Canadian dollars)	Q4 2023	Q3 2023	YTD 2023	Q4 2022	YTD 2022
Reported operating loss	**$ (15.1)**	$ (49.3)	**$ (127.5)**	$ (91.1)	$ (106.0)
Asset write-down and impairment	**$ -**	$ -	**$ -**	$ 49.6	$ 49.6
Inventory write-down (recovery), net	**$ (10.9)**	$ (2.0)	**$ (2.4)**	$ (0.5)	$ (2.2)
Adjusted operating loss	**$ (26.0)**	$ (51.3)	**$ (129.9)**	$ (42.0)	$ (58.6)
Amortization	**$ 16.2**	$ 21.6	**$ 85.0**	$ 26.4	$ 97.8
Adjusted operating income (loss) before amortization, asset write-down and impairment	**$ (9.8)**	$ (29.7)	**$ (44.9)**	$ (15.6)	$ 39.2

(millions of Canadian dollars, except ratios)	2023	2022
Reported operating loss	**$ (127.5)**	$ (106.0)
Other income, net	**$ 9.3**	$ -
Return	**$ (118.2)**	$ (106.0)
Average invested capital[22]	**$ 528.9**	$ 648.7
Return on invested capital (ROIC)	**(22.3)%**	(16.3)%

[22] Average invested capital represents the average during the period of total assets excluding cash and cash equivalents and total liabilities excluding term debt, retirement benefit obligations and deferred taxes.

(millions of Canadian dollars, except ratios)	As at December 31, 2023	As at December 31, 2022
Term-debt	**$ -**	$ 50.0
Operating Loan	**$ 107.0**	$ 15.0
Less: cash and cash equivalents	**$ 21.1**	$ 14.7
Net debt	**$ 85.9**	$ 50.3
Total equity	**$ 337.1**	$ 427.4
Total capitalization	**$ 423.0**	$ 477.7
Net debt to total capitalization	**20.3%**	10.5%

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the amounts recorded in the consolidated financial statements. Management regularly reviews these estimates and assumptions based on currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, Management does not believe it is likely that any such differences will materially affect CPPI's financial position. Unless otherwise indicated, the critical accounting estimates discussed affect all of the Company's reportable segments.

Employee Future Benefits

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

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

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

	December 31, 2023		December 31, 2022	
	Defined Benefit Pension Plans	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Discount rate	**4.6%**	**4.6%**	4.8%	4.8%
Rate of compensation increases	**2.0%**	**n/a**	3.0%	n/a
Initial medical cost trend rate	**n/a**	**5.0%**	n/a	5.0%
Ultimate medical cost trend rate	**n/a**	**4.5%**	n/a	4.5%
Year ultimate rate is reached	**n/a**	**2031**	n/a	2025

Assumed discount rates, medical cost trend rates and mortality assumptions have a significant effect on the accrued retirement benefit obligation and related plan assets. In addition to the significant assumptions listed in the table above, the average life expectancy of a 65-year-old at December 31, 2023 is between 21.4 years and 24.4 years. As at December 31, 2023, the weighted average duration of the defined benefit plan obligation, which reflects the average age of the plan members, is 13.0 years. The weighted average duration of the other benefit plans is 11.2 years.

For CPPI's pension benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the accrued benefit obligation by an estimated $8.5 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation by an estimated $10.3 million. With respect to this discount rate sensitivity effect on the defined benefit pension plan liabilities, however, it is noted that 41% is partially offset through the plan's investment in debt securities. These changes would only impact the Company's funding requirements in years where a new actuarial funding valuation was performed and regulatory approval for a change in funding contributions was obtained.

Annuity Contracts

On December 31, 2022, the Company entered into contracts to convert all of its existing buy-in annuities to buy-out annuities. As a result of these contracts, the Company's buy-in annuity assets and corresponding accrued benefit obligation of $61.8 million were derecognized from the Company's consolidated balance sheet as at December 31, 2022. No annuity contracts were held by the Company as at December 31, 2023.

Subsequent to year-end, on February 20, 2024, the Company purchased a buy-out annuity for a portion of its defined benefit pension plan. As a result, during the first quarter of 2024, $37.2 million of the Company's accrued benefit obligation and a similar amount of defined benefit plan assets were derecognized from the Company's consolidated balance sheet.

Asset Retirement Obligations

CPPI's asset retirement obligations represent estimated undiscounted future payments of $9.3 million to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur at periods ranging from 2 to 28 years and have been discounted at risk-free rates ranging from 3.0% to 3.9%.

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

Asset Write-Down and Impairment

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

For the current year, as a result of continued uncertainty surrounding fibre availability for CPPI's pulp mills, the Company performed an impairment test as of December 31, 2023, on the property, plant and equipment of the pulp operations.

The recoverable amount of the Company's property, plant and equipment within the pulp operations was determined based on an assessment of value in use, estimated using a discounted cash flow model. The discounted cash flow model was projected based on past experience and actual operating results as well as Management's assessment of future trends in the pulp industry, based on both external and internal sources of data. Significant assumptions included future production volume, commodity prices, fibre and production costs, as well as the discount rate. Other assumptions included applicable foreign exchange rates, operating rates of the assets, and future capital required to maintain the current operating condition of assets. Estimated future cash flows were discounted at a rate of 9% (12% before tax), based on CPPI's weighted average cost of capital for 2023.

As the recoverable amount of the property, plant and equipment of the pulp operations exceeded net book value at December 31, 2023, no impairment charge was recognized for 2023.

The Company continues to closely monitor the direct and indirect impacts associated with the constraints on economic fibre, especially in the near-term. If the availability of economically viable fibre within BC is further reduced, the Company's production, shipments and cost structure will be further affected. These factors could impact the Company's operating plan, liquidity, cash flows and the valuation of long-lived assets.

Deferred Taxes

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

Valuation of Finished Product Inventories

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

RISKS AND UNCERTAINTIES

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

Climate Change

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

There are also transition risks associated with climate change. These include changes in laws, regulations and industry standards associated with greenhouse gas emissions management, as well as non-regulatory pressures to reduce greenhouse gas emissions, and changing consumer preferences for low-carbon products. The Company monitors all regulatory changes including any climate-related regulations, to assess their impact on operations. The Company has undertaken a qualitative Climate Scenario Analysis to better understand the effects of specific climate-related physical and transition risks on specific asset types. The Company considers adaptation and mitigation strategies to manage and reduce greenhouse gas emissions and is in the process of establishing a decarbonization roadmap. The Company is also committed to ensuring that the suppliers of fibre to the Company practice sustainable forest management practices which considers climate change. However, there is no guarantee that these efforts will be effective, and these risks may lead to increased capital expenditure or payment of carbon taxes or could adversely affect our operations or financial conditions.

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

Competitive Markets

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

Cyclicality of Product Prices

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

Dependence on Canfor

In 2023, approximately 57% of the fibre used by the Company was derived from the Fibre Supply Agreements with Canfor. During the fourth quarter of 2023, the Company and Canfor agreed to an amended Fibre Supply Agreement effective December 1, 2023 for a three-year term. The Company's financial results could be materially adversely affected if Canfor is unable to provide the current volume of wood chips as a result of mill closures, whether temporary or permanent. Refer to the "Raw Material Costs and Availability" section of this MD&A for further details.

Dependence on Key Customers

In 2023, the Company's top five customers accounted for approximately 27% of its sales and one customer in the pulp segment accounted for 7% of the Company's total sales. In the event that the Company cannot maintain these customer relationships or the demand from these customers is diminished for any reason in the future, there is a risk that the Company would be forced to find alternative markets in which to sell its pulp, which in turn, could result in lower prices or increased distribution costs thereby adversely affecting its sales margins.

Environmental Issues

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

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

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

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

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

Financial Risk Management and Earnings Sensitivities

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

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

(a) Credit risk:

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

Financial instruments that are subject to credit risk include cash and cash equivalents, trade and other accounts receivable. Contract assets are also subject to credit risk. Cash and cash equivalents includes cash held through major Canadian and international financial institutions as well as temporary investments that are readily convertible into known amounts of cash within three months or less from the date of acquisition. The cash and cash equivalents balance at December 31, 2023 is $21.1 million.

CPPI utilizes credit insurance to mitigate the risk associated with some of its trade accounts receivables. As at December 31, 2023, approximately 77% of the outstanding trade accounts receivables are covered by credit insurance. In addition, CPPI requires letters of credit on certain export trade accounts receivables and regularly discounts these letters of credit without recourse. CPPI recognizes the sale of the letters of credit on the settlement date, and accordingly reduces the related trade accounts receivable balance. CPPI’s trade accounts receivable balance at December 31, 2023 is $48.8 million, before a loss allowance of $1.0 million. At December 31, 2023, approximately 100% of the trade accounts receivable balance is within CPPI's established credit terms.

(b) Liquidity risk:

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

At December 31, 2023, CPPI had $107.0 million drawn on its operating loan facility and $6.9 million reserved for several standby letters of credit, leaving $46.1 million available and undrawn. As a result, including cash and cash equivalents of $21.1 million and the Company's $80.0 million non-revolving term debt, which is restricted for use on the re-investment of Northwood's RB1, at December 31, 2023, the Company had available liquidity of $147.2 million. In addition, CPPI had accounts payable and accrued liabilities of $159.7 million, and no amounts drawn on the non-revolving term debt.

(c) Market risk:

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

(i) *Interest rate risk:*

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

(ii) *Currency risk:*

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

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax loss (gain) of approximately $0.1 million in relation to working capital balances denominated in US-dollars at year end (including cash, accounts receivable and accounts payable). A portion of the currency risk associated with US-dollar denominated sales is naturally offset by US-dollar denominated expenses. A portion of the remaining exposure is sometimes reduced by foreign exchange collar contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US-dollars.

(iii) *Commodity price risk:*

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

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

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

(iv) *Energy price risk:*

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

At December 31, 2023 the Company had no fixed interest rate swaps, foreign exchange contracts, pulp futures, energy fixed swaps or option contracts outstanding.

Earnings Sensitivities

Estimates of the sensitivity of CPPI's pre-tax results to currency fluctuations and prices for its principal products, based on 2024 forecast production and year end foreign exchange rates, are set out in the following table:

(millions of Canadian dollars)	Impact on annual pre-tax earnings
NBSK Pulp – US$10 change per tonne[23]	$ 8
Natural gas cost – $1 change per gigajoule	$ 6
Chip cost – $1 change per tonne	$ 2
Canadian dollar – US$0.01 change per Canadian dollar[24]	$ 6

[23] Excluding impacts of exchange rate, freight, discounting, potential change in fibre costs and other deductions.

[24] Represents the impact on sales and freight costs and excludes the impact on manufacturing and products costs denominated in US$. Decrease of US$0.01 per Canadian dollar results in an increase to pre-tax annual earnings and an increase of US$0.01 per Canadian dollar results in a decrease to pre-tax annual earnings.

Government and Other Regulations

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

Increased Industry Production Capacity

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

Health & Safety

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

Indigenous Relations

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

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

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

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

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

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

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

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

Inflation

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

Information Technology

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

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

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

CPPI, in conjunction with Canfor, is currently gathering knowledge and exploring opportunities to incorporate generative artificial intelligence and machine learning tools ("AI") into its business processes. As the use of generative AI technologies is still in its early stages, ineffective or inadequate development or deployment practices could pose challenges or unintended consequences to our business and operations. Any initiatives would be limited to Canfor's information technology environment.

Labour Agreements and Competition for Professional Skilled Labour

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

Maintenance Obligations and Facility Disruptions

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

Raw Material Costs and Availability

The principal raw material utilized by the Company in its manufacturing operations is wood chips. The Company's evergreen Fibre Supply Agreements with Canfor contain pricing formulas that result in the Company paying market price for wood chips and contains provisions to adjust pricing to reflect market conditions. The current pricing under these agreements was renewed in 2023 and may be amended as necessary to ensure it is reflective of market conditions.

Prices for wood chips are not within the Company's control and are driven by market demand, product availability, environmental restrictions, logging regulations, the imposition of fees or other restrictions on exports of lumber into the US and other matters. The impact of the Mountain Pine Beetle infestation in the region continues to impact overall fibre supply for the BC interior sawmills. The Prince George Timber Supply Area allowable annual cut ("AAC") has recently been reduced and is scheduled for another reduction in the next few years. This has the potential to significantly reduce the availability of residual chips that the Company currently consumes from regional sawmills, and an increased reliance on higher cost whole log chips will be required. A lower AAC in the region may also reduce the availability of pulpwood for whole log chips.

Residual chip pricing also depends on existing sawmills running at current levels. If the residual chip supply is reduced as a result of AAC reductions, lower sawmill production or sawmill closures, whether temporary or permanent, it is expected that the market price for wood chips will increase. The Company is not always able to increase the selling price of its products in response to increases in raw material costs, which could have a material adverse effect on CPPI's financial condition and operating results.

The Company continues to closely monitor the direct and indirect impacts associated with the constraints on economic fibre, especially in the near-term. If the availability of economically viable fibre within BC is further reduced, the Company's production, shipments and cost structure will be further affected. These factors could impact the Company's operating plan, liquidity, cash flows and the valuation of long-lived assets.

Transportation Services

The Company relies on third parties for transportation of its products, as well as delivery of raw materials principally by railroad, trucks, and ships. If any significant third-party transportation providers were to fail to deliver the raw materials or products or distribute them in a timely manner, the Company may be unable to sell those products at full value, or at all, or be unable to manufacture its products in response to customer demand, which may have a material adverse effect on its financial condition and operating results. In addition, if any of these significant third parties were to cease operations, suffer labour-related disruptions, or cease doing business with the Company, the Company may be unable to replace them at a reasonable cost. Transportation services may also be impacted by seasonal factors and severe weather, which could impact the timely delivery of raw materials and distribution of products to customers and have a resulting material adverse impact on CPPI's financial condition and operating results. As a result of increased government regulation on truck driver work hours, rail capacity constraints, and significant weather events including wildfires and flooding in the BC region, access to adequate transportation capacity has at times been strained and could affect the Company's ability to move its wood chips, pulp and paper at competitive market prices.

OUTSTANDING SHARE DATA

At March 5, 2024 there were 65,233,559 common shares issued and outstanding.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related consolidated financial statements was properly recorded, processed, summarized, and reported to the Board of Directors and the Audit Committee. The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2023, and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR") and confirm that there were no changes in the Company's ICFR during the year ended December 31, 2023, that materially affected, or would be reasonably likely to materially affect, such controls.

Based upon their evaluation of these controls for the year ended December 31, 2023, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2023 Annual Information Form, is available at www.sedarplus.com or at www.canfor.com.