



2021

MANAGEMENT'S DISCUSSION & ANALYSIS

CANFOR PULP PRODUCTS INC.

In 2020, pulp production was most notably impacted by COVID-19 related curtailments and Northwood's RB5 lower furnace replacement and extended outage, which reduced pulp production by 133,000 tonnes, as well as scheduled outages at the Company's Northwood and Taylor pulp mills (approximately 55,000 tonnes).

Capital spending in 2021 totaled \$78.7 million and was principally comprised of Northwood's RB5 lower furnace replacement early in the year, combined with maintenance-of-business capital spending. In 2022, Management currently anticipates capital spending to comprise the lower furnace rebuild of Northwood's RB1, strategic projects focused on enhancing long-term fibre optimization, improving its carbon footprint as well as various projects aimed at improving operational reliability.

The Company maintained its strong balance sheet position in 2021, finishing the year with a positive net cash position.

Environmental, Social and Governance ("ESG") 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.

In 2021, as part of this leading role, the Company launched its sustainability strategy, including an updated 2020 Sustainability Report prepared in accordance with Global Reporting Initiative Standards. The latest Sustainability Report includes the Company's new goals and targets and demonstrates progress made to date, reiterating a commitment to providing comprehensive and transparent reporting of sustainability practices, goals and metrics. The Company's sustainability strategy marks a new era in sustainability for the Company. 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 the 2021 Sustainability Report, the Company will continue its evolution in ESG reporting by providing increasing transparency and disclosure, including defining additional goals and targets for its ESG material topics. The Company is actively monitoring the changing landscape of ESG reporting regulations and is aligning disclosures with the recommendations from the Task Force on Climate-Related Financial Disclosures ("TCFD") and with the standards of the Sustainability Accounting Standards Board ("SASB"). More details will be included in Canfor's 2021 Sustainability Report (to be issued in the second quarter of 2022).

Furthermore, the Company is subject to risks related to ESG topics, including climate change and environmental issues. Climate change risks include physical risks resulting from adverse events brought on by both natural and human-made disasters, including, but not limited to, severe weather conditions, forest fires, hurricanes, earthquakes and timber diseases and infestations. The Company is also subject to transition risks associated with climate change including changes in laws, regulations and industry standards associated with climate change. There also may be reputation risks due to rising prominence of ESG 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 is also subject to a wide range of general and industry-specific laws and regulations relating to protection of the environment.

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.

