CANFOR

2022

QUARTER ONE

MANAGEMENT'S DISCUSSION & ANALYSIS

CANFOR PULP PRODUCTS INC.

Canfor Pulp Products Inc.
First Quarter 2022
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Pulp Products Inc.'s ("CPPI" or "the Company") financial performance for the quarter ended March 31, 2022 relative to the quarters ended December 31, 2021 and March 31, 2021, and the financial position of the Company at March 31, 2022. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended, March 31, 2022 and 2021, as well as the 2021 annual MD&A and the 2021 audited consolidated financial statements and notes thereto, which are included in CPPI's Annual Report for the year ended December 31, 2021 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income (Loss) before Amortization and Impairment which CPPI considers to be a relevant indicator for measuring trends in the Company's performance and its ability to generate funds to meet its debt service and capital expenditure requirements, and to pay dividends. Reference is also made to Adjusted Net Income (Loss) (calculated as Net Income (Loss) less specific items affecting comparability with prior periods) – for the full calculation, see reconciliation included in the section "First Quarter 2022 Overview") and Adjusted Net Income (Loss) per Share (calculated as Adjusted Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization and Impairment, Adjusted Net Income (Loss) and Adjusted Net Income (Loss) per Share are not generally accepted earnings measures under IFRS and should not be considered as an alternative to net income 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 and Impairment, 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 and Impairment to Operating Income (Loss) and Adjusted Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in the "Non-IFRS Financial Measures" section of this MD&A. Throughout this discussion reference is made to the current quarter which refers to the results for the first quarter of 2022.

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at May 2, 2022.

Forward Looking Statements

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

FIRST QUARTER 2022 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except ratios)	Q1 2022	Q4 2021	Q1 2021
Operating income (loss) by segment:			
Pulp	**$ (29.3)**	$ (135.2)	$ 3.7
Paper	**$ 6.0**	$ 1.7	$ 4.2
Unallocated	**$ (2.7)**	$ (3.7)	$ (3.0)
Total operating income (loss)	**$ (26.0)**	$ (137.2)	$ 4.9
Add: Amortization[1]	**$ 20.1**	$ 22.6	$ 20.8
Add: Asset impairment	**$ -**	$ 95.0	$ -
Total operating income (loss) before amortization and impairment	**$ (5.9)**	$ (19.6)	$ 25.7
Add (deduct):			
Working capital movements	**$ (31.6)**	$ 50.6	$ (15.2)
Defined benefit pension plan contributions, net	**$ (1.0)**	$ (0.6)	$ (1.1)
Income taxes (paid) received, net	**$ (2.2)**	$ 3.3	$ (0.3)
Other operating cash flows, net	**$ 0.7**	$ 1.1	$ 8.2
Cash from operating activities	**$ (40.0)**	$ 34.8	$ 17.3
Deduct:			
Capital additions, net	**$ (18.4)**	$ (16.0)	$ (33.0)
Other, net	**$ (0.7)**	$ (1.2)	$ (0.9)
Change in cash / operating loans	**$ (59.1)**	$ 17.6	$ (16.6)
ROIC – Consolidated period-to-date[2]	**(4.1)%**	(19.4)%	1.7%
Average exchange rate (US$ per C$1.00)[3]	**$ 0.790**	$ 0.794	$ 0.790

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

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

After-tax impact (millions of Canadian dollars, except per share amounts)	Q1 2022	Q4 2021	Q1 2021
Net income (loss), as reported	**$ (19.9)**	$ (101.1)	$ 8.4
Asset impairment, net of tax	**$ -**	$ 69.4	$ -
Adjusted net income (loss)[4]	**$ (19.9)**	$ (31.7)	$ 8.4
Net income (loss) per share (EPS), as reported	**$ (0.31)**	$ (1.55)	$ 0.13
Net impact of above items per share	**$ -**	$ 1.06	$ -
Adjusted net income (loss) per share[4]	**$ (0.31)**	$ (0.49)	$ 0.13

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

The Company reported an operating loss of $26.0 million for the first quarter of 2022, compared to an operating loss of $137.2 million for the fourth quarter of 2021. After adjusting for a $1.1 million recovery in its inventory write-down provision in the current period, the Company's operating loss was $27.1 million for the first quarter of 2022, a $14.0 million improvement compared to similarly adjusted operating loss for the fourth quarter of 2021 of $41.1 million.

The Company's operating results in the current period principally reflected supply-driven increases in Northern Bleached Softwood Kraft ("NBSK") pulp US-dollar pricing that were significantly moderated by the ongoing impacts of global supply chain challenges and transportation disruptions in British Columbia ("BC") on the Company's operations and shipments. As a result, the Company's NBSK pulp and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") unit sales realizations were broadly in line with the previous quarter. In addition, current quarter results included the impact of capital-related downtime at the Company's Northwood NBSK pulp mill ("Northwood") related to the rebuild of the lower furnace of recovery boiler number one ("RB1"). The lower furnace replacement was completed mid-April, with a total capital cost of approximately $30.0 million, with no insurance proceeds contemplated at this time, and a total reduction in NBSK pulp production of 90,000 tonnes (10,000 tonnes in the fourth quarter of 2021, 70,000 tonnes in the current quarter and a further 10,000 tonnes in April 2022).

Compared to the first quarter of 2021, adjusted operating results decreased $29.8 million as substantially higher average NBSK sales unit pulp realizations in the current period were more than offset by reduced pulp shipments, a decline in pulp production as well as higher pulp unit manufacturing costs quarter-over-quarter.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

Selected Financial Information and Statistics – Pulp

(millions of Canadian dollars, unless otherwise noted)	Q1 2022	Q4 2021	Q1 2021
Sales	**$ 175.9**	$ 212.4	$ 219.8
Operating income (loss) before amortization and impairment[5]	**$ (9.7)**	$ (18.1)	$ 23.8
Operating income (loss)	**$ (29.3)**	$ (135.2)	$ 3.7
Asset impairment	**$ -**	$ 95.0	$ -
Inventory write-downs (recovery)	**$ (1.1)**	$ 1.1	$ (2.2)
Adjusted operating income (loss)[6]	**$ (30.4)**	$ (39.1)	$ 1.5
Average NBSK pulp price delivered to China – US$[7]	**$ 899**	$ 723	$ 883
Average NBSK pulp price delivered to China – Cdn$[7]	**$ 1,139**	$ 911	$ 1,118
Production – pulp (000 mt)	**176**	190	292
Shipments – pulp (000 mt)	**176**	216	265

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

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

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

Markets

Global pulp markets tightened significantly during the first quarter of 2022, principally driven by the ongoing global transportation challenges and combined with unplanned pulp supply disruptions, largely due to labour disruptions in Europe and logistic constraints in BC. As a result, NBSK US-dollar list prices on orders from China saw a sharp increase during the period, reaching near-record highs of US$985 per tonne in March, to average US$899 per tonne for the current quarter, up US$176 per tonne, or 24%, from the previous quarter and up US$16 per tonne, or 2%, compared to the first quarter of 2021. Prices to North America also experienced strengthening, although not to the same degree as China, up US$55 per tonne, or 4%, from the prior quarter and up US$225 per tonne, or 17%, compared to the same period in the prior year, to US$1,527 per tonne (before discounts). Reflecting the lag between orders and shipments, as well as the Company's reduced production, it is anticipated that the majority of these price gains will be realized in the second and third quarters of 2022.

Despite the uplift in global US-dollar pulp pricing, global softwood pulp producer inventories at the end of February 2022 were at 45 days[8] supply, up two days from December 2021, well above the balanced range and largely reflecting the aforementioned supply chain constraints. Market conditions are generally considered balanced when inventories are in the 28-36 days of supply range.

Sales

The Company's pulp shipments for the first quarter of 2022 were 176,000 tonnes, down 40,000 tonnes, or 19%, from the previous quarter and down 89,000 tonnes, or 34%, from the first quarter of 2021. Decreased shipments in the current quarter reflected a 7% decrease in pulp production combined with the sustained impacts of a constrained global logistics network and challenging transportation environment in BC, as well as a notable drawdown of inventory in the prior quarter. Compared to the first quarter of 2021, the decrease in pulp shipments primarily reflected the 40% reduction in pulp production, offset in part by the timing of vessels quarter-over-quarter.

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

Notwithstanding the improvement in global pulp list prices, the Company's NBSK pulp and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") unit sales realizations were broadly in line with the previous quarter, primarily due to a significant delay in shipments (versus orders) driven by both the ongoing global container shortages and transportation challenges in BC.

Compared to the first quarter of 2021, average NBSK pulp unit sales realizations saw a substantial increase, principally reflecting higher US-dollar pulp list pricing combined with a favourable regional sales mix. Average BCTMP unit sales realizations were moderately lower than the same period in the prior year, as comparable BCTMP demand and US-dollar pricing was overshadowed by a notable lag in shipments (versus orders) tied to the aforementioned transportation delays.

Energy revenues were broadly in line with the prior quarter and moderately lower than the first quarter of 2021. The latter was principally driven by a reduction in turbine operating days largely due to the continuation of Northwood's RB1 lower furnace replacement throughout the current period.

Operations

Pulp production was 176,000 tonnes for the first quarter of 2022, down 14,000 tonnes, or 7%, from the previous quarter, largely reflecting the quarter-over-quarter impact of downtime.

In the current quarter, pulp production was principally impacted by the extended outage on one production line at Northwood to enable the replacement of RB1's lower furnace (approximately 70,000 tonnes), as well as downtime at the Company's Taylor BCTMP mill ("Taylor") (approximately 30,000 tonnes) driven by significant transportation shortages in BC that resulted in finished pulp inventories at Taylor reaching capacity. In addition, current quarter pulp production reflected various smaller operational upsets through the period (approximately 30,000 tonnes).

In the fourth quarter of 2021, operational performance at all of the Company's pulp mills was challenged by unprecedented flooding and harsh winter conditions in BC that resulted in transportation-related downtime at Northwood and Taylor. In addition, production at Northwood was reduced by the commencement in December of the replacement of RB1's lower furnace. Combined, these factors reduced NBSK pulp production by approximately 100,000 tonnes and BCTMP production by 20,000 tonnes in the fourth quarter of 2021.

Compared to the first quarter of 2021, pulp production was down 116,000 tonnes, or 40%, primarily reflecting decreased operating days in the current period associated with the rebuild of Northwood's RB1 in the current period, as well as the transportation-related curtailment at Taylor, offset in part by the completion of Northwood's recovery boiler number five ("RB5") capital-related downtime (approximately 10,000 tonnes) in the comparative period.

Pulp unit manufacturing costs were comparable to the prior quarter, principally reflecting lower fibre costs offset by higher energy and chemical costs in the current quarter. Fibre costs were down compared to the previous period, primarily driven by an increased proportion of lower-cost sawmill residual chips. Compared to the first quarter of 2021, pulp unit manufacturing costs were significantly higher, mostly attributable to lower production combined with market-related increases in fibre costs in the current quarter.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars, unless otherwise noted)	Q1 2022	Q4 2021	Q1 2021
Sales	**$ 43.8**	$ 36.9	$ 42.6
Operating income before amortization[9]	**$ 6.5**	$ 2.2	$ 4.9
Operating income	**$ 6.0**	$ 1.7	$ 4.2
Production – paper (000 mt)	**34**	31	30
Shipments – paper (000 mt)	**31**	27	37

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

Markets

Global kraft paper market demand and pricing continued to strengthen through the first quarter of 2022, led primarily by the home building segment, and combined with tight global kraft paper supply, particularly in offshore markets.

Sales

The Company's paper shipments in the first quarter of 2022 were 31,000 tonnes, up 4,000 tonnes from the previous quarter, and down 6,000 tonnes from the first quarter of 2021, principally reflecting the timing of shipments around quarter-end compared to both comparative periods.

Paper unit sales realizations in the first quarter of 2022 were modestly higher than the previous quarter, largely attributable to the strengthening of global US-dollar paper pricing in the current period. Compared to the first quarter of 2021, paper unit sales realizations experienced a substantial increase, primarily reflecting a notable improvement in US-dollar prices, especially to North American markets, quarter-over-quarter.

Operations

Paper production for the first quarter of 2022 was 34,000 tonnes, up 3,000 tonnes from the previous quarter, and up 4,000 tonnes from the first quarter of 2021, largely reflecting improved productivity in the current period following several operational challenges at the Prince George pulp and paper mill in both comparative periods.

Paper unit manufacturing costs were slightly lower than the fourth quarter of 2021, primarily reflecting improved productivity in the current period, with slush pulp costs broadly comparable quarter-over-quarter. Compared to the first quarter of 2021, paper unit manufacturing costs saw a substantial increase, principally driven by higher slush pulp costs, tied to the increase in average NBSK pulp unit sales realizations in the current quarter, offset in part by reduced spend on operating supplies (timing-related).

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)	**Q1 2022**	Q4 2021	Q1 2021
Corporate costs	**$ (2.7)**	$ (3.7)	$ (3.0)
Finance expense, net	**$ (1.0)**	$ (1.5)	$ (1.2)
Other income (loss), net	**$ (0.3)**	$ 0.1	$ 7.7

Corporate costs were $2.7 million for the first quarter of 2022 down $1.0 million from the previous quarter and down $0.3 million from the first quarter of 2021, largely reflecting a decline in head office and general administrative expenses in the current period.

Net finance expense for the first quarter of 2022 was $1.0 million, down $0.5 million compared to the prior quarter and broadly in line with the first quarter of 2021. The decrease in finance expense compared to the fourth quarter of 2021 principally related to a higher interest expense in the comparative period associated with the extended maturity date of the Company's term debt.

Other expense, net, of $0.3 million in the first quarter of 2022 was largely due to unfavourable foreign exchange movements on US-dollar denominated working capital balances. Other income, net of $0.1 million in the fourth quarter of 2021 principally related to favourable foreign exchange movements on US-dollar denominated working capital balances. Other income, net, of $7.7 million in the first quarter of 2021 primarily reflected insurance proceeds of $8.3 million, offset in part by unfavourable foreign exchange movements on US-dollar denominated working capital balances. The former is related to unscheduled downtime in 2018 at Northwood to enable necessary tube replacements to RB5, rectifying damage discovered during routine preventative maintenance inspections.

Other Comprehensive Income

In the first quarter of 2022, the Company recorded a gain of $9.8 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), largely reflecting a 0.8% increase in the discount rate used to value the employee future benefit plans, partially offset by a lower than anticipated return on plan assets. This compared to a gain of $4.5 million (before tax) in the fourth quarter of 2021, principally due to a higher than anticipated return on plan assets. In the first quarter of 2021, the Company recorded a gain of $6.6 million (before tax), largely reflecting a 0.5% increase in the discount rates used to value the defined benefit plans.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)	Q1 2022	Q4 2021	Q1 2021
Increase (decrease) in cash and cash equivalents	**$ (59.1)**	$ 17.6	$ (1.6)
Operating activities	**$ (40.0)**	$ 34.8	$ 17.3
Financing activities	**$ (0.8)**	$ (1.3)	$ 14.1
Investing activities	**$ (18.3)**	$ (15.9)	$ (33.0)
Ratio of current assets to current liabilities	**2.1 : 1**	2.5 : 1	2.2 : 1
Net debt (cash) to capitalization[10]	**6.9%**	(4.9)%	9.9%

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

Operating Activities

Cash used for operating activities in the first quarter of 2022 was $40.0 million, compared to cash generated of $34.8 million in the fourth quarter of 2021 and $17.3 million in the first quarter of 2021. The $74.8 million decrease in operating cash flows compared to the previous quarter was largely due to unfavourable movements in non-cash working capital, principally driven by an increase in wood chips and log inventories during production downtime, as well as higher accounts receivable at the end of the current quarter. Compared to the first quarter of 2021, the decrease in operating cash flows primarily reflected lower cash earnings in the current period combined with unfavourable changes in non-cash working capital quarter-over-quarter.

Financing Activities

Cash used for financing activities in the first quarter of 2022 was $0.8 million, mostly in line with the fourth quarter of 2021 and $14.9 lower than cash generated of $14.1 million in the first quarter of 2021. Cash used for financing activities in the current quarter primarily reflected interest expense on the Company's term debt and financing fees associated with letters of credit. Cash generated from financing activities in the first quarter of 2021 principally related to a $15.0 million draw down of the Company's principal operating loan facility to service working capital requirements.

Investing Activities

Cash used for investing activities of $18.3 million in the current quarter was principally comprised of Northwood's RB1 capital upgrades, as well as maintenance-of-business capital.

Liquidity and Financial Requirements

At March 31, 2021, the Company had a $110.0 million unsecured operating loan facility, with $12.9 million reserved for several standby letters of credit. At the end of the current quarter, the Company had $97.1 million available and undrawn on its operating loan facility.

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization, and is based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin. The facility is repayable on December 15, 2025 and has certain financial covenants including a covenant based on maximum debt to total capitalization of the Company.

The Company's $50.0 million non-revolving term debt features similar financial covenants to the operating loan facility, including a maximum debt to total capitalization ratio. The term debt is repayable on December 15, 2024 with interest based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin.

As at March 31, 2022, the Company had net debt of $35.8 million and available liquidity of $111.3 million.

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

Net-Zero Carbon Emissions Plan

Building on the Company's comprehensive sustainability strategy, on April 26, 2022, the Company, together with Canfor, announced the implementation of a comprehensive plan to achieve net-zero carbon emissions by 2050. To achieve net-zero, the Company has developed near term science-based targets that include reducing the carbon emissions from its pulp operations, which are defined as Scope 1 and Scope 2, by 42% by 2030 compared to a base year of 2020. In addition, by 2024 the Company will measure and assess global supply chain emissions, which are defined as Scope 3, and set a science-based reduction target.

OUTLOOK

Pulp and Paper Markets

Global softwood kraft pulp markets are projected to remain strong through the second quarter of 2022, driven largely by tight supply arising from the current global supply chain challenges and transportation constraints in BC, as well as the traditional spring maintenance period. High yield markets are forecast to see more modest improvements through the second quarter of 2022, also tied to limited supply availability.

Results in the second quarter of 2022 are anticipated to reflect in part, the near record-high US-dollar pulp list pricing seen in first quarter of 2022. However, the intermittent and limited rail service experienced in BC in the first quarter of 2022 is projected to continue well into the second quarter, putting sustained pressure on the Company's operations and shipments through the coming months, including, as previously announced, the extension of a transportation-related curtailment at Taylor by at least a further six-weeks, with a projected 25,000 tonnes of reduced BCTMP production. The Company will continue to closely monitor the ongoing supply chain challenges and will adjust future operating plans accordingly, through the balance of the second quarter and into latter half of 2022.

In addition, the Company's results in the second quarter of 2022 will reflect the impact of the RB1 capital-related outage at Northwood into mid-April (approximately 10,000 tonnes), as well as a scheduled maintenance outage at Northwood in the latter part of the second quarter, with a projected 25,000 tonnes of reduced NBSK pulp production. With the RB1 rebuild now complete a key focus of the Company's kraft pulp mills for the balance of 2022 will be on improving operational reliability and closely managing manufacturing and fibre costs.

Bleached kraft paper markets are projected to show continued strength through the second quarter of 2022, as tight supply and low inventories in the North American and Asian paper markets is combined with growing demand for kraft paper products.

OUTSTANDING SHARES

As at March 31, 2022 and May 2, 2022, there were 65,233,559 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%.

CRITICAL ACCOUNTING ESTIMATES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2022, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2021 annual statutory reports, which are available on www.canfor.com or www.sedar.com.

There have been no adverse impacts of the coronavirus ("COVID-19") on the Company in the first quarter of 2022. The Company continues to closely monitor the impacts of COVID-19, however, should the duration, spread or intensity of the pandemic change, supply chain, market pricing and customer demand could be affected. These factors could impact the Company's operating plan, liquidity, cash flows, and the valuation of long-lived assets. Please see the Company's annual disclosures referenced above for further information.

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 219.7**	$ 249.3	$ 298.9	$ 334.3	$ 262.4	$ 237.8	$ 226.4	$ 250.7
Operating income (loss) before amortization and impairment[11]	**$ (5.9)**	$ (19.6)	$ 37.8	$ 72.9	$ 25.7	$ (6.2)	$ (8.7)	$ 13.3
Operating income (loss)	**$ (26.0)**	$ (137.2)	$ 15.8	$ 51.0	$ 4.9	$ (28.3)	$ (27.6)	$ (6.3)
Net income (loss)	**$ (19.9)**	$ (101.1)	$ 12.1	$ 36.2	$ 8.4	$ (10.2)	$ (18.1)	$ (1.1)
Per common share (Canadian dollars)								
Net income (loss) – basic and diluted	**$ (0.31)**	$ (1.55)	$ 0.19	$ 0.55	$ 0.13	$ (0.16)	$ (0.28)	$ (0.02)
Book value[12]	**$ 7.39**	$ 7.59	$ 9.09	$ 8.89	$ 8.37	$ 8.16	$ 8.25	$ 8.57
Statistics								
Pulp shipments (000 mt)	**176**	216	241	285	265	258	249	248
Paper shipments (000 mt)	**31**	27	34	30	37	35	27	36
Average exchange rate – US$/Cdn$	**$ 0.790**	$ 0.794	$ 0.794	$ 0.814	$ 0.790	$ 0.767	$ 0.751	$ 0.722
Average NBSK pulp list price delivered to China (US$)	**$ 899**	$ 723	$ 832	$ 962	$ 883	$ 637	$ 572	$ 572

[11] Amortization includes amortization of certain capitalized major maintenance costs; includes an asset impairment charge of $95.0 million in Q4 2021.
[12] Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

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

After-tax impact (millions of Canadian dollars, except for per share amounts)	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Net income (loss), as reported	**$ (19.9)**	$ (101.1)	$ 12.1	$ 36.2	$ 8.4	$ (10.2)	$ (18.1)	$ (1.1)
Asset impairment, net of tax	**$ -**	$ 69.4	$ -	$ -	$ -	$ -	$ -	$ -
Adjusted net income (loss)[13]	**$ (19.9)**	$ (31.7)	$ 12.1	$ 36.2	$ 8.4	$ (10.2)	$ (18.1)	$ (1.1)
Net income (loss) per share (EPS), as reported	**$ (0.31)**	$ (1.55)	$ 0.19	$ 0.55	$ 0.13	$ (0.16)	$ (0.28)	$ (0.02)
Net impact of above items per share	**$ -**	$ 1.06	$ -	$ -	$ -	$ -	$ -	$ -
Adjusted net income (loss) per share[13]	**$ (0.31)**	$ (0.49)	$ 0.19	$ 0.55	$ 0.13	$ (0.16)	$ (0.28)	$ (0.02)

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

NON-IFRS FINANCIAL MEASURES

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

(millions of Canadian dollars)		**Q1 2022**		Q4 2021		Q1 2021
Reported operating income (loss)	**$**	**(26.0)**	$	(137.2)	$	4.9
Asset impairment	**$**	**-**	$	95.0	$	-
Inventory write-down (recovery), net	**$**	**(1.1)**	$	1.1	$	(2.2)
Adjusted operating income (loss)	**$**	**(27.1)**	$	(41.1)	$	2.7
Amortization	**$**	**20.1**	$	22.6	$	20.8
Adjusted operating income (loss) before amortization and impairment	**$**	**(7.0)**	$	(18.5)	$	23.5
Net income (loss)	**$**	**(19.9)**	$	(101.1)	$	8.4
Asset impairment, net of tax	**$**	**-**	$	69.4	$	-
Adjusted net income (loss)	**$**	**(19.9)**	$	(31.7)	$	8.4

(millions of Canadian dollars)		**Q1 2022**		Q4 2021		Q1 2021
Reported operating income (loss)	**$**	**(26.0)**	$	(137.2)	$	4.9
Other income, net	**$**	**-**	$	-	$	8.3
Return	**$**	**(26.0)**	$	(137.2)	$	13.2
Average invested capital[14]	**$**	**626.8**	$	708.6	$	759.8
Return on invested capital (ROIC)		**(4.1)%**		(19.4)%		1.7%

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

(millions of Canadian dollars)		**As at March 31, 2022**		As at December 31, 2021		As at March 31, 2021
Term-debt	**$**	**50.0**	$	50.0	$	50.0
Operating loan	**$**	**-**	$	-	$	15.0
Less: Cash and cash equivalents	**$**	**14.2**	$	73.3	$	5.2
Net debt (cash)	**$**	**35.8**	$	(23.3)	$	59.8
Total equity	**$**	**482.2**	$	495.0	$	545.7
Total capitalization	**$**	**518.0**	$	471.7	$	605.5
Net debt (cash) to total capitalization		**6.9%**		(4.9)%		9.9%