



2022

QUARTER TWO

MANAGEMENT'S DISCUSSION & ANALYSIS

CANFOR PULP PRODUCTS INC.

Canfor Pulp Products Inc.
Second 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 June 30, 2022 relative to the quarters ended March 31, 2022 and June 30, 2021, and the financial position of the Company at June 30, 2022. It should be read in conjunction with CPPI's unaudited interim consolidated financial statements and accompanying notes for the quarters ended, June 30, 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, Adjusted Operating Income (Loss) and Adjusted Operating Income (Loss) before Amortization 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 refer to the "Selected Quarterly Financial Information" section) 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 Operating Income (Loss), Adjusted Operating Income (Loss) before Amortization, 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 Operating Income (Loss), Adjusted Operating Income (Loss) before Amortization, 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 these measures to those reported in accordance with IFRS are included in the "Non-IFRS Financial Measures" section of this MD&A, with details surrounding Operating Income (Loss) before Amortization and Impairment included under "Selected Quarterly Financial Information". Throughout this discussion reference is made to the current quarter which refers to the results for the second 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 July 28, 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.

SECOND QUARTER 2022 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except ratios)	Q2 2022	Q1 2022	YTD 2022	Q2 2021	YTD 2021
Operating income (loss) by segment:					
Pulp	\$ (11.1)	\$ (29.3)	\$ (40.4)	\$ 53.6	\$ 57.3
Paper	\$ 6.2	\$ 6.0	\$ 12.2	\$ 0.9	\$ 5.1
Unallocated	\$ (3.2)	\$ (2.7)	\$ (5.9)	\$ (3.5)	\$ (6.5)
Total operating income (loss)	\$ (8.1)	\$ (26.0)	\$ (34.1)	\$ 51.0	\$ 55.9
Add: Amortization ¹	\$ 23.8	\$ 20.1	\$ 43.9	\$ 21.9	\$ 42.7
Total operating income (loss) before amortization	\$ 15.7	\$ (5.9)	\$ 9.8	\$ 72.9	\$ 98.6
Add (deduct):					
Working capital movements	\$ 18.0	\$ (31.6)	\$ (13.6)	\$ (11.0)	\$ (26.2)
Defined benefit pension plan contributions, net	\$ (0.7)	\$ (1.0)	\$ (1.7)	\$ (0.9)	\$ (2.0)
Income taxes (paid) received, net	\$ (1.0)	\$ (2.2)	\$ (3.2)	\$ 0.3	\$ -
Other operating cash flows, net	\$ 1.9	\$ 0.7	\$ 2.6	\$ 0.9	\$ 9.1
Cash from operating activities	\$ 33.9	\$ (40.0)	\$ (6.1)	\$ 62.2	\$ 79.5
Deduct:					
Capital additions, net	\$ (37.7)	\$ (18.4)	\$ (56.1)	\$ (15.4)	\$ (48.4)
Other, net	\$ (1.3)	\$ (0.7)	\$ (2.0)	\$ (0.9)	\$ (1.8)
Change in cash / operating loans	\$ (5.1)	\$ (59.1)	\$ (64.2)	\$ 45.9	\$ 29.3
ROIC – Consolidated period-to-date ²	(1.2)%	(4.1)%	(5.3)%	6.6%	8.4%
Average exchange rate (US\$ per C\$1.00)³	\$ 0.783	\$ 0.790	\$ 0.787	\$ 0.814	\$ 0.802

¹ Amortization includes amortization of certain capitalized major maintenance costs.

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

³ Source – Bank of Canada (monthly average rate for the period).

The Company reported an operating loss of \$8.1 million for the second quarter of 2022, compared to an operating loss of \$26.0 million for the first quarter of 2022, in large part reflecting materially higher Northern Bleached Softwood Kraft ("NBSK") pulp unit sales realizations, and to a lesser extent, a 16% uplift in pulp shipments, as transportation disruptions globally and in British Columbia ("BC") eased somewhat in the latter part of the current quarter. These factors more than offset the impact of market-related fibre cost increases and inflation-driven cash conversion cost pressures in the current period.

Compared to the second quarter of 2021, operating results decreased \$59.1 million as a slight increase in average NBSK sales unit pulp realizations and a 3 cent, or 4%, weaker Canadian dollar 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)	Q2 2022	Q1 2022	YTD 2022	Q2 2021	YTD 2021
Sales	\$ 235.3	\$ 175.9	\$ 411.2	\$ 296.9	\$ 516.7
Operating income (loss) before amortization ⁴	\$ 12.2	\$ (9.7)	\$ 2.5	\$ 74.8	\$ 98.6
Operating income (loss)	\$ (11.1)	\$ (29.3)	\$ (40.4)	\$ 53.6	\$ 57.3
Inventory write-downs (recovery)	\$ 0.5	\$ (1.1)	\$ (0.6)	\$ -	\$ (2.2)
Adjusted operating income (loss) ⁵	\$ (10.6)	\$ (30.4)	\$ (41.0)	\$ 53.6	\$ 55.1
Average NBSK pulp price delivered to China – US\$ ⁶	\$ 1,008	\$ 899	\$ 954	\$ 962	\$ 922
Average NBSK pulp price delivered to China – Cdn\$ ⁶	\$ 1,287	\$ 1,139	\$ 1,213	\$ 1,181	\$ 1,149
Production – pulp (000 mt)	187	176	363	290	582
Shipments – pulp (000 mt)	205	176	381	285	550

⁴ Amortization includes amortization of certain capitalized major maintenance costs.

⁵ Adjusted operating income (loss) is a non-IFRS financial measure. Refer to the “Non-IFRS Financial Measures” section for further details.

⁶ 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

Following the sharp improvement in global softwood pulp market fundamentals earlier in the year, ongoing global logistics constraints and unplanned global production outages, resulted in strong global pulp market conditions throughout the second quarter. The upward trend in NBSK US-dollar list prices on orders to China experienced in the first quarter, continued into April and held at near-record highs throughout the balance of the period. As a result, the current quarter US-dollar NBSK pulp list price to China averaged US\$1,008 per tonne, up US\$109 per tonne, or 12%, from the previous quarter and up US\$46 per tonne, or 5%, compared to the second quarter of 2021. Prices to North America (before discounts) experienced more notable increases in the current quarter, largely in response to the uplift in China prices earlier in the year, up US\$216 per tonne, or 14%, from the previous quarter, and up US\$145 per tonne, or 9%, compared to the same period in the prior year, to average US\$1,743 per tonne.

Global softwood pulp producer inventories at the end of May 2022 were slightly above the balanced range at 38 days⁷ of supply, an improvement of two days from March 2022. (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 second quarter of 2022 were 205,000 tonnes, up 29,000 tonnes, or 16% from the previous quarter, principally due to a 6% improvement in pulp production combined with a drawdown of inventory in the current period, as transportation challenges in BC experienced in the prior quarter were alleviated somewhat towards the end of current quarter. Compared to the second quarter of 2021, pulp shipments were down 80,000 tonnes, or 28%, primarily reflecting the 36% reduction in pulp production and, to a lesser extent, the timing of vessels quarter-over-quarter, offset in part by the aforementioned drawdown of inventory in the current period.

The Company’s average NBSK pulp unit sales realizations were significantly higher than the previous quarter, as an uptick in US-dollar NBSK pulp pricing experienced in the first quarter and maintained throughout the second quarter, was combined with a favourable timing lag in shipments (versus orders). Average Bleached Chemi-Thermo Mechanical Pulp (“BCTMP”) unit sales realizations moderately improved compared to the previous quarter, as an uptick in BCTMP global demand and pricing from earlier in 2022 was realized in the current period.

⁷ World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council (“PPPC”).

Compared to the second quarter of 2021, the Company's average NBSK pulp unit sales realizations saw a slight improvement principally reflecting the 3 cent, or 4%, weaker Canadian dollar combined with higher US-dollar pulp list pricing, offset in part, by an unfavourable regional sales mix. Average BCTMP unit sales realizations were significantly lower than the same period in the prior year, as lower US-dollar pricing more than outweighed the weaker Canadian dollar.

Energy revenues were down compared to the first quarter of 2022, largely due to seasonally lower energy prices. Compared to the second quarter of 2021, energy revenue was moderately lower, primarily reflecting a reduction in turbine operating days due to the completion of Northwood NBSK pulp mill's ("Northwood") recovery boiler number one ("RB1") lower furnace replacement in April 2022, as well as Northwood's scheduled maintenance outage in the current period.

Operations

Pulp production was 187,000 tonnes for the second quarter of 2022, up 11,000 tonnes, or 6%, from the previous quarter, as NBSK productivity in the current period was maximized to available transportation. Concurrently, logistics-related downtime at the Company's Taylor BCTMP mill ("Taylor"), which commenced in the first quarter of 2022 and continued throughout the second quarter, reduced production by approximately 60,000 tonnes. In addition, NBSK pulp production in the current period included the completion in mid-April of the Northwood RB1 capital upgrade (approximately 10,000 tonnes) as well as a scheduled maintenance outage at Northwood which commenced in June and was completed mid-July (approximately 30,000 tonnes in the second quarter and a further 16,000 tonnes in July).

In the first quarter of 2022, pulp production was primarily 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 Taylor driven by significant transportation shortages in BC (approximately 30,000 tonnes), and various smaller operational upsets (approximately 30,000 tonnes).

Compared to the second quarter of 2021, pulp production was down 103,000 tonnes, or 36%, mainly reflecting decreased operating days in the current period associated with the transportation-related curtailment at Taylor, as well as Northwood's RB1 rebuild and planned maintenance outage, which more than offset the impact of the scheduled maintenance downtime at the Company's Intercontinental NBSK pulp mill ("Intercon") in the comparative period (approximately 15,000 tonnes).

Pulp unit manufacturing costs experienced a moderate increase compared to the prior quarter, principally reflecting higher fibre costs, and, to a lesser extent, elevated chemical costs and increased maintenance spend in the current period. The higher fibre costs reflected increased market prices for delivered sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) combined with a larger proportion of higher-cost whole log chips as a result of sawmill curtailments in the current quarter and, to a lesser extent, an improvement in chip quality.

Compared to the second quarter of 2021, pulp unit manufacturing costs were significantly higher, mostly attributable to lower production combined with market-related increases in fibre costs as well as higher energy and chemical costs in the current quarter.

Paper

Selected Financial Information and Statistics – Paper

(millions of Canadian dollars, unless otherwise noted)	Q2 2022	Q1 2022	YTD 2022	Q2 2021	YTD 2021
Sales	\$ 52.2	\$ 43.8	\$ 96.0	\$ 37.4	\$ 80.0
Operating income before amortization ⁸	\$ 6.7	\$ 6.5	\$ 13.2	\$ 1.6	\$ 6.5
Operating income	\$ 6.2	\$ 6.0	\$ 12.2	\$ 0.9	\$ 5.1
Production – paper (000 mt)	33	34	67	34	64
Shipments – paper (000 mt)	34	31	65	30	67

⁸ Amortization includes amortization of certain capitalized major maintenance costs.

Markets

Global kraft paper market demand and pricing remained strong through most of the second quarter of 2022, with some softening experienced in the North American market late in June.

Sales

The Company's paper shipments in the second quarter of 2022 were 34,000 tonnes, up 3,000 tonnes from the previous quarter, and up 4,000 tonnes from the second quarter of 2021, principally reflecting the timing of shipments around quarter-end compared to both comparative periods.

Paper unit sales realizations in the second quarter of 2022 were moderately higher than the previous quarter, largely attributable to the continued strengthening of global US-dollar paper pricing throughout most of the current period and, to a lesser extent, the weaker Canadian dollar. Compared to the second 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, combined with a 4% weaker Canadian dollar.

Operations

Paper production for the second quarter of 2022 was 33,000 tonnes, broadly in line with both comparative periods.

Paper unit manufacturing costs were significantly higher than the first quarter of 2022, largely due to notably higher slush pulp costs (tied to increased Canadian dollar NBSK pulp unit sales realizations), combined with an uplift in chemical costs and increased spend on operating supplies in the current period (timing-related). Compared to the second quarter of 2021, paper unit manufacturing costs also saw a substantial increase primarily driven by higher conversion costs quarter-over-quarter, and, to a lesser extent, a slight increase in slush pulp costs.

Unallocated Items

Selected Financial Information

(millions of Canadian dollars)	Q2 2022	Q1 2022	YTD 2022	Q2 2021	YTD 2021
Corporate costs	\$ (3.2)	\$ (2.7)	\$ (5.9)	\$ (3.5)	\$ (6.5)
Finance expense, net	\$ (1.6)	\$ (1.0)	\$ (2.6)	\$ (1.2)	\$ (2.4)
Other income (expense), net	\$ 1.9	\$ (0.3)	\$ 1.6	\$ (0.1)	\$ 7.6

Corporate costs were \$3.2 million for the second quarter of 2022 up \$0.5 million from the previous quarter and broadly in line with the second quarter of 2021. The former largely reflecting a slight increase in head office and general administrative expenses in the current period.

Net finance expense for the second quarter of 2022 was \$1.6 million, up \$0.6 million compared to the prior quarter and up \$0.4 million compared to the second quarter of 2021. The increase principally related to higher financing fees associated with letters of credit and a slight uplift in interest expense associated with the Company's term debt in the current quarter.

Other income, net, of \$1.9 million in the second quarter of 2022 was largely due to favourable foreign exchange movements on US-dollar denominated working capital balances. Other expense, net, of \$0.3 million in the first quarter of 2022 and \$0.1 million in the second quarter of 2021 were largely due to unfavourable foreign exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income

In the second quarter of 2022, the Company recorded a gain of \$11.0 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 1.2% 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 \$9.8 million (before tax) in the first quarter of 2022, largely reflecting a 0.8% increase in the discount rate used to value the employee future benefit plans. In the second quarter of 2021, the Company recorded a loss of \$2.9 million (before tax), mostly reflecting a 0.2% decrease in the discount rate used to value the defined benefit pension 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)	Q2 2022	Q1 2022	YTD 2022	Q2 2021	YTD 2021
Increase (decrease) in cash and cash equivalents	\$ (5.1)	\$ (59.1)	\$ (64.2)	\$ 30.9	\$ 29.3
Operating activities	\$ 33.9	\$ (40.0)	\$ (6.1)	\$ 62.2	\$ 79.5
Financing activities	\$ (1.3)	\$ (0.8)	\$ (2.1)	\$ (15.9)	\$ (1.8)
Investing activities	\$ (37.7)	\$ (18.3)	\$ (56.0)	\$ (15.4)	\$ (48.4)
Ratio of current assets to current liabilities		2.1 : 1	1.9:1		2.4 : 1
Net debt (cash) to capitalization ⁹		6.9%	7.8%		2.3%
ROIC – Consolidated period-to-date	(1.2)%	(4.1)%	(5.3)%	6.6%	8.4%

⁹ 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 generated from operating activities in the second quarter of 2022 was \$33.9 million, compared to cash used of \$40.0 million in the first quarter of 2022 and cash generated of \$62.2 million in the second quarter of 2021. The \$73.9 million increase in operating cash flows compared to the previous quarter was largely due to favourable movements in non-cash working capital, principally driven by a timing-related increase in accounts payable and accrued liabilities at the end of the current quarter, as well as higher cash earnings in the current period. Compared to the second quarter of 2021, the decrease in operating cash flows primarily reflected lower cash earnings in the current period offset in part by favourable changes in non-cash working capital quarter-over-quarter.

Financing Activities

Cash used for financing activities in the second quarter of 2022 was \$1.3 million, compared to cash used of \$0.8 million in the first quarter of 2022 and \$15.9 million in the second 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 used for financing activities in the second quarter of 2021 principally related to a \$15.0 million repayment of the Company's principal operating loan facility.

Investing Activities

Cash used for investing activities of \$37.7 million in the current quarter and \$18.3 million in the previous quarter was principally comprised of the completion of Northwood's RB1 capital upgrade, as well as maintenance-of-business capital. In the second quarter of 2021, cash used for investing activities of \$15.4 million largely related to maintenance-of-business capital.

Liquidity and Financial Requirements

At June 30, 2022, 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 June 30, 2022, the Company had net debt of \$40.9 million and available liquidity of \$106.2 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 sustainability strategy, on April 26, 2022, the Company, together with Canfor, announced its commitment 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. The Company committed to these company-wide emission reductions in line with the Science Based Targets initiative ("SBTi") and will undergo validation with the SBTi within the next two years.

Sustainability Reporting

On June 28, 2022, the Company, together with Canfor, published its 2021 Sustainability Report which is the second year of its sustainability strategy. The report is a continuation of the Company's ambition to become an industry leader in sustainability and furthers its commitments to sustainability, including transparent reporting of sustainability practices, goals and metrics. The 2021 Sustainability Report includes performance to date on targets set in the previous year's report as well as additional performance targets for the material topics of Climate Change, Water Management, Waste Management and Air Quality. The 2021 Sustainability Report also includes disclosures aligned with the recommendations from the Task Force on Climate-related Financial Disclosures ("TCFD") and the Sustainability Accounting Standards Board ("SASB") standards.

OUTLOOK

Pulp and Paper Markets

Looking forward, global softwood kraft pulp markets are projected to remain solid through the third quarter of 2022, reflecting both global pulp production and supply constraints, as well as steady demand. High yield markets are forecast to see slight improvements through the third quarter of 2022, also tied to limited supply availability.

Notwithstanding the modest improvement in BC's transportation networks seen in the later part of the second quarter, results in the third quarter are anticipated to reflect the continued impact of and uncertainties associated with a constrained rail service network and the related pressures on the Company's operations and shipments. Furthermore, it is projected that a restart of Taylor will not be contemplated until such time as there is a return to more normal transportation service levels to all of the Company's pulp and paper mills. The Company will continue to closely monitor the supply chain challenges and will adjust future operating plans accordingly, through the balance of 2022.

In addition, the Company's results in the third quarter of 2022 will reflect the impact of the continuation of Northwood's scheduled maintenance outage into mid-July (approximately 16,000 tonnes), as well as a scheduled maintenance outage at the Company's Intercon mill in the latter part of the third quarter and into the fourth quarter, with a projected 12,000 tonnes of reduced NBSK pulp production.

Bleached kraft paper markets are projected to weaken somewhat through the third quarter with a modest slowdown in demand anticipated, especially in offshore markets, as global kraft paper inventories return to more normalized levels.

OUTSTANDING SHARES

As at June 30, 2022 and July 28, 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 June 30, 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 second 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 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

	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Sales and income (loss) (millions of Canadian dollars)								
Sales	\$ 287.5	\$ 219.7	\$ 249.3	\$ 298.9	\$ 334.3	\$ 262.4	\$ 237.8	\$ 226.4
Operating income (loss) before amortization and impairment ¹⁰	\$ 15.7	\$ (5.9)	\$ (19.6)	\$ 37.8	\$ 72.9	\$ 25.7	\$ (6.2)	\$ (8.7)
Operating income (loss)	\$ (8.1)	\$ (26.0)	\$ (137.2)	\$ 15.8	\$ 51.0	\$ 4.9	\$ (28.3)	\$ (27.6)
Net income (loss)	\$ (5.7)	\$ (19.9)	\$ (101.1)	\$ 12.1	\$ 36.2	\$ 8.4	\$ (10.2)	\$ (18.1)
Per common share (Canadian dollars)								
Net income (loss) – basic and diluted	\$ (0.09)	\$ (0.31)	\$ (1.55)	\$ 0.19	\$ 0.55	\$ 0.13	\$ (0.16)	\$ (0.28)
Book value ¹¹	\$ 7.43	\$ 7.39	\$ 7.59	\$ 9.09	\$ 8.89	\$ 8.37	\$ 8.16	\$ 8.25
Statistics								
Pulp shipments (000 mt)	205	176	216	241	285	265	258	249
Paper shipments (000 mt)	34	31	27	34	30	37	35	27
Average exchange rate – US\$/Cdn\$	\$ 0.783	\$ 0.790	\$ 0.794	\$ 0.794	\$ 0.814	\$ 0.790	\$ 0.767	\$ 0.751
Average NBSK pulp list price delivered to China (US\$)	\$ 1,008	\$ 899	\$ 723	\$ 832	\$ 962	\$ 883	\$ 637	\$ 572

¹⁰ Amortization includes amortization of certain capitalized major maintenance costs; includes an asset impairment charge of \$95.0 million in Q4 2021.

¹¹ 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)	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Net income (loss), as reported	\$ (5.7)	\$ (19.9)	\$ (101.1)	\$ 12.1	\$ 36.2	\$ 8.4	\$ (10.2)	\$ (18.1)
Asset impairment, net of tax	\$ -	\$ -	\$ 69.4	\$ -	\$ -	\$ -	\$ -	\$ -
Adjusted net income (loss)¹²	\$ (5.7)	\$ (19.9)	\$ (31.7)	\$ 12.1	\$ 36.2	\$ 8.4	\$ (10.2)	\$ (18.1)
Net income (loss) per share (EPS), as reported	\$ (0.09)	\$ (0.31)	\$ (1.55)	\$ 0.19	\$ 0.55	\$ 0.13	\$ (0.16)	\$ (0.28)
Net impact of above items per share	\$ -	\$ -	\$ 1.06	\$ -	\$ -	\$ -	\$ -	\$ -
Adjusted net income (loss) per share¹²	\$ (0.09)	\$ (0.31)	\$ (0.49)	\$ 0.19	\$ 0.55	\$ 0.13	\$ (0.16)	\$ (0.28)

¹² 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)	Q2 2022	Q1 2022	YTD 2022	Q2 2021	YTD 2021
Reported operating income (loss)	\$ (8.1)	\$ (26.0)	\$ (34.1)	\$ 51.0	\$ 55.9
Inventory write-down (recovery), net	\$ 0.5	\$ (1.1)	\$ (0.6)	\$ -	\$ (2.2)
Adjusted operating income (loss)	\$ (7.6)	\$ (27.1)	\$ (34.7)	\$ 51.0	\$ 53.7
Amortization	\$ 23.8	\$ 20.1	\$ 43.9	\$ 21.9	\$ 42.7
Adjusted operating income (loss) before amortization	\$ 16.2	\$ (7.0)	\$ 9.2	\$ 72.9	\$ 96.4

(millions of Canadian dollars)	Q2 2022	Q1 2022	YTD 2022	Q2 2021	YTD 2021
Reported operating income (loss)	\$ (8.1)	\$ (26.0)	\$ (34.1)	\$ 51.0	\$ 55.9
Other income, net	\$ -	\$ -	\$ -	\$ 0.6	\$ 8.9
Return	\$ (8.1)	\$ (26.0)	\$ (34.1)	\$ 51.6	\$ 64.8

Average invested capital ¹³	\$ 661.1	\$ 626.8	\$ 642.8	\$ 776.2	\$ 766.6
Return on invested capital (ROIC)	(1.2)%	(4.1)%	(5.3)%	6.6%	8.4%

¹³ 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 for ratios)	As at June 30, 2022	As at December 31, 2021	As at June 30, 2021
Term-debt	\$ 50.0	\$ 50.0	\$ 50.0
Operating loan	\$ -	\$ -	\$ -
Less: Cash and cash equivalents	\$ 9.1	\$ 73.3	\$ 36.1
Net debt (cash)	\$ 40.9	\$ (23.3)	\$ 13.9
Total equity	\$ 484.6	\$ 495.0	\$ 579.8
Total capitalization	\$ 525.5	\$ 471.7	\$ 593.7
Net debt (cash) to total capitalization	7.8%	(4.9)%	2.3%