



2023

FINANCIAL STATEMENTS

CANFOR PULP PRODUCTS INC.

MANAGEMENT'S RESPONSIBILITY

The information and representations in these consolidated financial statements are the responsibility of Management and have been approved by the Board of Directors. The consolidated financial statements were prepared by Management in accordance with IFRS Accounting Standards and, where necessary, reflect Management's best estimates and judgments at this time. It is reasonably possible that circumstances may arise which cause actual results to differ.

Canfor Pulp Products Inc. maintains systems of internal controls over financial reporting, policies and procedures to provide reasonable assurance as to the reliability of the financial records and the safeguarding of its assets.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out these activities primarily through its Audit Committee.

The Audit Committee is comprised of three Directors who are not employees of the Company. The Audit Committee meets periodically throughout the year with Management, external auditors and internal auditors to review their respective responsibilities, results of the reviews of internal controls over financial reporting, policies and procedures and financial reporting matters. The external and internal auditors meet separately with the Audit Committee.

The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The consolidated financial statements have been audited by KPMG LLP, the external auditors, whose report follows.

March 5, 2024

"Kevin A. Edgson"

Kevin A. Edgson
President and Chief Executive Officer

"Patrick A. J. Elliott"

Patrick A. J. Elliott
Chief Financial Officer and Senior Vice President, Sustainability



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canfor Pulp Products Inc.

Opinion

We have audited the consolidated financial statements of Canfor Pulp Products Inc. (the Entity), which comprise:

- the consolidated balance sheets as at December 31, 2023 and December 31, 2022
- the consolidated statements of income (loss) for the years then ended
- the consolidated statements of other comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of the recoverable amount of the pulp and paper segment

Description of the matter

We draw attention to Notes 3, 5 and 13 to the financial statements. The Entity identified indicators of impairment for its pulp and paper segment's property, plant and equipment and performed an impairment test to estimate their recoverable amounts. The Entity has not recorded an impairment loss for the year ended December 31, 2023 (\$49.6 million for the year ended December 31, 2022). The recoverable amount of the pulp and paper segment is determined based on an assessment of value in use. Significant assumptions used in determining value in use include future production volumes, commodity prices, fibre and production costs and the discount rate.

Why the matter is a key audit matter

We identified the assessment of the recoverable amounts of the pulp and paper segment as a key audit matter. The value in use was sensitive to changes in certain significant assumptions. Significant auditor judgment was required to evaluate the results of our audit procedures. Further, specialized skills and knowledge were required in evaluating the discount rate.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We evaluated the appropriateness of forecasted production volumes and forecasted fibre and production costs of the Entity by comparing to actual historical production volumes and fibre and production costs. We considered changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.
- We compared forecasted commodity prices to third party industry pricing publications and to the Entity's historical realized pulp and paper prices over the past five years.
- We involved a valuation professional with specialized skills and knowledge, who assisted in evaluating the discount rate used in the estimated value in use by comparing to a discount range that was independently developed using publicly available market data for comparable entities.



Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2023 Canfor Pulp Products Inc. Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2023 Canfor Pulp Products Inc. Annual Report" is expected to be made available to us after the date of this auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance for the financial statements with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor's report is Andrew James.

Vancouver, Canada

March 5, 2024

Canfor Pulp Products Inc. Consolidated Balance Sheets

(millions of Canadian dollars)	As at December 31, 2023	As at December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 21.1	\$ 14.7
Trade receivables	47.8	82.4
Other receivables	6.3	5.2
Income taxes recoverable	0.2	2.3
Inventories (Note 4)	165.9	183.2
Prepaid expenses and other	10.2	26.6
Total current assets	251.5	314.4
Property, plant and equipment and intangible assets (Note 5)	415.8	431.4
Right-of-use assets (Note 6(a))	1.7	1.8
Other long-term assets	6.8	8.4
Total assets	\$ 675.8	\$ 756.0
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	\$ 159.7	\$ 150.1
Operating loan (Note 8)	107.0	15.0
Current portion of lease obligations (Note 6(b))	0.8	0.9
Total current liabilities	267.5	166.0
Term debt (Note 9)	-	50.0
Retirement benefit obligations (Note 10)	39.0	48.4
Lease obligations (Note 6(b))	1.4	1.9
Other long-term provisions (Note 11)	10.2	6.9
Deferred income taxes, net (Note 16)	20.6	55.4
Total liabilities	\$ 338.7	\$ 328.6
EQUITY		
Share capital (Note 12)	\$ 480.8	\$ 480.8
Accumulated deficit	(143.7)	(53.4)
Total equity	\$ 337.1	\$ 427.4
Total liabilities and equity	\$ 675.8	\$ 756.0

Commitments and Contingencies (Note 20) and **Subsequent Events** (Notes 10 and 23)

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

APPROVED BY THE BOARD

"N.J. Mayr"

Director, N.J. Mayr

"The Hon. J.R. Baird"

Director, The Hon. J.R. Baird

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

(millions of Canadian dollars, except per share data)	Years ended December 31,	
	2023	2022
Sales	\$ 875.5	\$ 1,085.6
Costs and expenses		
Manufacturing and product costs	774.5	866.8
Freight and other distribution costs	112.7	140.5
Amortization	85.0	97.8
Selling and administration costs	27.6	29.0
Restructuring costs (Note 13)	3.2	7.9
Asset write-down and impairment (Note 13)	-	49.6
	1,003.0	1,191.6
Operating loss	(127.5)	(106.0)
Finance expense, net (Note 14)	(13.2)	(7.3)
Other income, net (Note 15)	8.2	5.0
Net loss before income taxes	(132.5)	(108.3)
Income tax recovery (Note 16)	36.4	29.2
Net loss	\$ (96.1)	\$ (79.1)
Net loss per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 12)	\$ (1.47)	\$ (1.21)

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

Canfor Pulp Products Inc.
Consolidated Statements of Other Comprehensive Income

(millions of Canadian dollars)	Years ended December 31,	
	2023	2022
Net loss	\$ (96.1)	\$ (79.1)
Other comprehensive income		
Items that will not be reclassified subsequently to net loss:		
Defined benefit plan actuarial gains, net (Note 10)	8.0	15.8
Income tax expense on defined benefit plan actuarial gains, net (Note 16)	(2.2)	(4.3)
Other comprehensive income, net of tax	5.8	11.5
Total comprehensive loss	\$ (90.3)	\$ (67.6)

Consolidated Statements of Changes in Equity

(millions of Canadian dollars)	Years ended December 31,	
	2023	2022
Share capital		
Balance at beginning and end of year	\$ 480.8	\$ 480.8
Retained earnings (accumulated deficit)		
Balance at beginning of year	\$ (53.4)	\$ 14.2
Net loss	(96.1)	(79.1)
Other comprehensive income, net of tax	5.8	11.5
Balance at end of year	\$ (143.7)	\$ (53.4)
Total equity	\$ 337.1	\$ 427.4

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

Canfor Pulp Products Inc. Consolidated Statements of Cash Flows

(millions of Canadian dollars)	Years ended December 31,	
	2023	2022
Cash generated from (used in):		
Operating activities		
Net loss	\$ (96.1)	\$ (79.1)
Items not affecting cash:		
Amortization	85.0	97.8
Income tax recovery (Note 16)	(36.4)	(29.2)
Employee future benefits expense	2.1	3.6
Finance expense, net (Note 14)	13.2	7.3
Restructuring costs (Note 13)	3.2	7.9
Asset write-down and impairment (Note 13)	-	49.6
Other, net	5.5	(1.7)
Defined benefit plan contributions	(5.8)	(3.3)
Income taxes received (paid), net	1.6	(3.6)
	(27.7)	49.3
Net change in non-cash working capital (Note 17)	64.0	(4.0)
	36.3	45.3
Financing activities		
Operating loan drawings, net (Note 8)	92.0	15.0
Conversion of term debt to operating loan (Note 8)	(50.0)	-
Repayment of lease obligations (Note 6(b))	(0.7)	(0.9)
Finance expenses paid	(11.4)	(5.8)
	29.9	8.3
Investing activities		
Additions to property, plant and equipment and intangible assets, net (Note 5)	(60.5)	(112.6)
Other, net	0.7	0.4
	(59.8)	(112.2)
Increase (decrease) in cash and cash equivalents*	6.4	(58.6)
Cash and cash equivalents at beginning of year*	14.7	73.3
Cash and cash equivalents at end of year*	\$ 21.1	\$ 14.7

*Cash and cash equivalents include cash on hand less unrepresented cheques.

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

Canfor Pulp Products Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2023 and December 31, 2022

1. Reporting Entity

Canfor Pulp Products Inc. ("CPPI") is a company incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The address of the Company's registered office is 101 – 161 East 4th Avenue, Vancouver, British Columbia, Canada, V5T 1G4. The consolidated financial statements of the Company as at and for the year ended December 31, 2023 comprise the Company and its subsidiaries (hereinafter referred to as "CPPI" or "the Company"). During 2023, the Company's operations consisted of two Northern Bleached Softwood Kraft ("NBSK") pulp mills and one NBSK pulp and paper mill (until the permanent closure of its pulp line in April 2023) located in Prince George, British Columbia, a Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill located in Taylor, British Columbia (indefinitely idled since 2022 and agreed to be sold subsequent to year-end) and a marketing group based in Vancouver, British Columbia.

At December 31, 2023, and March 5, 2024, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI, unchanged from December 31, 2022.

2. Basis of Preparation

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on March 5, 2024.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for certain items as discussed in the applicable accounting policies under Note 3.

Use of estimates and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Company regularly reviews its estimates and assumptions; however, it is possible that circumstances may arise which may cause actual results to differ from Management's estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the applicable notes:

- Note 4 – Inventories;
- Note 5 – Property, Plant and Equipment and Intangible Assets;
- Note 10 – Employee Future Benefits;
- Note 13 – Asset Write-Down, Impairment and Restructuring Costs; and
- Note 16 – Income Taxes.

3. Material Accounting Policies

The following accounting policies have been applied to the financial information presented.

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when CPPI is able to govern the financial and operating activities of those other entities to generate returns for the Company. Inter-company transactions, balances and unrealized gains and losses on transactions between different entities within the Company are eliminated.

For joint operations, the Company recognizes its assets, liabilities and transactions, including its share of those incurred jointly, in its consolidated financial statements.

Inventories

Inventories include pulp, paper, wood chips, logs, and materials and supplies. These are measured at the lower of cost and net realizable value, and are presented net of applicable write-downs. 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. The Company 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.

Property, plant and equipment

Items of property, plant and equipment, including expenditure on major overhauls, are measured at cost less accumulated amortization, write-downs and impairment losses.

Cost includes expenditures which are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs (as applicable), and any other costs directly attributable to bringing assets to the location and condition necessary for it to be used in the manner intended by Management.

Expenditure on major overhauls, refits or repairs is capitalized where it enhances the life or performance of an asset above its originally assessed standard of performance. Certain expenditures relating to replacement of components incurred during major maintenance are capitalized and amortized over the estimated benefit period of such expenditures. The costs of the day-to-day servicing of property, plant and equipment are recognized in net income as incurred.

The cost of replacing a major component of an item of property, plant and equipment is recognized in the carrying amount of the item if the future economic benefits embodied within the component part will flow to CPPI and its cost can be measured reliably. The carrying amount of the replaced component is removed.

Amortization is recognized in net income on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, as set out in the table below. Land is not amortized.

Amortization methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date. The following rates have been applied to CPPI's capital assets:

Buildings, roads and paving	10 to 40 years
Pulp and paper machinery and equipment	8 to 20 years
Mobile equipment	4 years
Office furniture and equipment	10 years
Major overhauls	1 to 5 years

Intangible assets

Computer software

Software development costs relate to major software systems purchased or developed by the Company. These costs are amortized on a straight-line basis over periods ranging from four to ten years.

Government assistance

Government assistance relating to the acquisition of property, plant and equipment is recorded as a reduction of the cost of the asset to which it relates, with any amortization calculated on the net amount. Government grants related to income are recognized as income or a reimbursement of costs on a systematic basis over the periods necessary to match them with the related costs which they were intended to compensate, unless the conditions for the grant are

met after the related expenses have been recognized. In this case, the grant is recognized when it becomes a receivable.

Asset impairments

CPPI's property, plant and equipment, ROU assets and intangible assets are assessed at each reporting date to determine whether there are any indications of impairment, and an impairment test is performed whenever events or circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized in net income at the amount 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 purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of cash inflows from other assets or groups of assets (cash-generating unit).

Non-financial assets, for which impairment was recorded in a prior period, are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset cannot exceed the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized in prior years.

Employee future benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity makes contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee future benefits expense when they are earned.

For hourly employees covered by forest industry union defined contribution or benefit plans, the consolidated statement of income is charged with CPPI's contributions required under the collective agreements.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. CPPI, in participation with Canfor, has defined benefit plans that provide both pension and other non-pension post-retirement benefits to certain salaried employees, and certain hourly employees not covered by forest industry union plans. The other non-pension post-retirement benefits include certain health care benefits and pension bridging benefits to eligible retired employees.

The surplus and/or obligation recognized in the consolidated balance sheet in respect of a defined benefit pension plan is the net of the accrued benefit obligation and the fair value of the plan assets. The accrued benefit obligation, the related service cost and, where applicable, the past service cost is determined separately for each defined benefit pension plan based on actuarial determinations. The accrued benefit obligation is calculated as the present value of each member's prospective benefits earned in respect of credited service prior to the valuation date and the related service cost is calculated as the present value of the benefits the member is assumed to earn for credited service in the ensuing year. The actuarial assumptions used in these calculations, such as salary escalation and health care inflation, are based upon best estimates selected by CPPI. The discount rate assumptions are based on the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of CPPI's obligations.

Actuarial gains and losses can arise from differences between actual and expected outcomes or changes in the actuarial assumptions or legislated amounts payable. Actuarial gains and losses, including the return on plan assets, are recognized in other comprehensive income in the period in which they occur.

A gain or loss on settlement is recognized in net income, calculated as the difference between the present value of the defined benefit obligation being settled, as determined on the date of settlement, and the settlement amount.

Provisions

CPPI recognizes a provision if, as a result of a past event, it has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision recorded is Management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The expense

arising from the unwinding of the discount due to the passage of time is recorded as a finance expense. The main class of provision recognized by CPPI is as follows:

Asset retirement obligations

CPPI recognizes liabilities for asset retirement obligations in the period in which they are incurred. The site restoration costs are capitalized as part of the cost of the related item of property, plant and equipment and amortized on a basis consistent with the expected useful life of the related asset. Asset retirement obligations are discounted at the risk-free rate in effect at the balance sheet date.

Restructuring

A provision for restructuring is recognized as an expense and a liability, when CPPI has approved a detailed and formal restructuring plan, which may include the indefinite or permanent closure of one of its operations, and the restructuring has either commenced, or has been announced publicly. Provisions are not recognized for future operating costs.

Revenue recognition

CPPI's revenues are derived from the sale of pulp, paper and energy. Revenue is measured based on the consideration specified in a contract with a customer, net of applicable sales taxes, returns, rebates and discounts and after eliminating sales within the Company. Revenue for pulp and paper is recognized when the control of the product transfers to the customer. Energy revenue is recognized at each month-end based on energy produced and transferred to the customer under the terms and conditions of electricity purchase and load displacement agreements.

The timing of transfer of control to customers varies depending on the individual terms of the contract of sale, but is typically at the time pulp and paper is loaded onto a truck or rail carrier, upon vessel departure, upon delivery, as the goods are used by the customer, or when pulp and paper has been picked up by the buyer at a designated transfer point at the Company's mill or warehouse. The amount of revenue recognized is adjusted for commissions, volume rebates and discounts at the point in time control is transferred.

Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by CPPI are reported as a component of freight and other distribution costs.

Income taxes

Income tax expense comprises current and deferred taxes. Current and deferred taxes are recognized in net income except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

CPPI recognizes deferred income tax in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at tax rates expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Investment tax credits are credited to manufacturing and product costs in the period in which it becomes reasonably assured that the Company is entitled to them. Unused investment tax credits are recorded as other current or long-term assets in the Company's consolidated balance sheet, depending upon when the benefit is expected to be received.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. Segment results reported to the chief operating decision-maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-bearing liabilities, head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment and intangible assets.

4. Inventories

(millions of Canadian dollars)	As at December 31, 2023	As at December 31, 2022
Pulp	\$ 54.4	\$ 66.6
Paper	31.2	29.6
Wood chips and logs	30.6	27.5
Materials and supplies	49.7	59.5
	\$ 165.9	\$ 183.2

The above inventory balances are stated at the lower of cost and net realizable value. For the year ended December 31, 2023, a \$2.4 million reversal of a previously recognized inventory write-down was recorded (2022 – \$2.2 million net recovery of a previous write-down). At December 31, 2023, no inventory provision has been recognized (December 31, 2022 – provision of \$2.4 million related to logs).

Inventory expensed in 2023 and 2022 is included in 'Manufacturing and product costs' and 'Amortization' on the consolidated statement of income (loss).

5. Property, Plant and Equipment and Intangible Assets

(millions of Canadian dollars)	Land and improvements	Buildings, machinery and equipment	Other property, plant and equipment ²	Construction in progress	Intangible assets	Total property, plant and equipment and intangible assets
Cost						
Balance at January 1, 2022	\$ 5.5	\$ 1,744.1	\$ 112.1	\$ 13.0	\$ 36.7	\$ 1,911.4
Additions ¹	-	-	-	112.3	2.7	115.0
Disposals	-	(2.3)	(30.9)	-	-	(33.2)
Transfers	-	27.0	78.5	(105.5)	-	-
Balance at December 31, 2022	\$ 5.5	\$ 1,768.8	\$ 159.7	\$ 19.8	\$ 39.4	\$ 1,993.2
Additions ¹	-	-	0.4	57.3	0.8	58.5
Disposals	-	(10.6)	(51.4)	-	(0.8)	(62.8)
Transfers	-	27.7	28.2	(55.9)	-	-
Balance at December 31, 2023	\$ 5.5	\$ 1,785.9	\$ 136.9	\$ 21.2	\$ 39.4	\$ 1,988.9
Amortization and Impairment						
Balance at January 1, 2022	\$ -	\$ (1,388.0)	\$ (38.5)	\$ -	\$ (20.1)	\$ (1,446.6)
Amortization for the year	-	(43.2)	(47.4)	-	(6.1)	(96.7)
Asset write-down and impairment (Note 13)	-	(49.6)	-	-	-	(49.6)
Disposals	-	1.6	29.5	-	-	31.1
Balance at December 31, 2022	\$ -	\$ (1,479.2)	\$ (56.4)	\$ -	\$ (26.2)	\$ (1,561.8)
Amortization for the year	-	(30.0)	(47.8)	-	(6.3)	(84.1)
Disposals and transfers	-	20.4	51.7	-	0.7	72.8
Balance at December 31, 2023	\$ -	\$ (1,488.8)	\$ (52.5)	\$ -	\$ (31.8)	\$ (1,573.1)
Carrying Amounts						
At January 1, 2022	\$ 5.5	\$ 356.1	\$ 73.6	\$ 13.0	\$ 16.6	\$ 464.8
At December 31, 2022	\$ 5.5	\$ 289.6	\$ 103.3	\$ 19.8	\$ 13.2	\$ 431.4
At December 31, 2023	\$ 5.5	\$ 297.1	\$ 84.4	\$ 21.2	\$ 7.6	\$ 415.8

¹ Net of capital expenditures financed by government grants.

² Other property, plant and equipment is comprised of major overhauls and capitalized landfill retirement costs.

6. Leases

(a) Right-of-Use Assets

(millions of Canadian dollars)		Land	Machinery and equipment	Other facilities and equipment	Total
Cost					
Balance at January 1, 2022	\$	0.1	\$ 6.2	\$ 2.9	\$ 9.2
Additions		-	0.5	0.3	0.8
Disposals		-	-	(0.7)	(0.7)
Effect of movements in exchange rates		-	-	(0.1)	(0.1)
Balance at December 31, 2022	\$	0.1	\$ 6.7	\$ 2.4	\$ 9.2
Additions		-	0.7	0.1	0.8
Disposals		-	(0.5)	(0.2)	(0.7)
Balance at December 31, 2023	\$	0.1	\$ 6.9	\$ 2.3	\$ 9.3
Amortization					
Balance at January 1, 2022	\$	-	\$ (5.2)	\$ (1.9)	\$ (7.1)
Amortization for the year		-	(0.8)	(0.3)	(1.1)
Disposals		-	-	0.6	0.6
Effect of movements in exchange rates		-	-	0.2	0.2
Balance at December 31, 2022	\$	-	\$ (6.0)	\$ (1.4)	\$ (7.4)
Amortization for the year		-	(0.6)	(0.3)	(0.9)
Disposals		-	0.5	0.2	0.7
Balance at December 31, 2023	\$	-	\$ (6.1)	\$ (1.5)	\$ (7.6)
Carrying Amounts					
At January 1, 2022	\$	0.1	\$ 1.0	\$ 1.0	\$ 2.1
At December 31, 2022	\$	0.1	\$ 0.7	\$ 1.0	\$ 1.8
At December 31, 2023	\$	0.1	\$ 0.8	\$ 0.8	\$ 1.7

(b) Lease Obligations

Contractual undiscounted cash flows associated with the Company's lease obligations are as follows:

(millions of Canadian dollars)		As at December 31, 2023	As at December 31, 2022
Within one year	\$	1.0	1.0
Between one and five years		1.2	1.0
Beyond five years		0.4	0.6
Total undiscounted lease obligations	\$	2.6	2.6

Interest expense on lease obligations for 2023 was \$0.1 million (2022 – \$0.1 million) and is included in 'Finance expense, net' on the consolidated statement of income (loss).

Operating lease expenses relating to short-term and low-value leases not included in the measurement of lease obligations for 2023 were \$1.4 million (2022 – \$1.6 million).

Total cash outflows for leases in 2023 were \$2.1 million, including \$1.4 million for short-term and low-value leases, as well as variable lease expenses (2022 – \$2.5 million and \$1.6 million, respectively).

7. Accounts Payable and Accrued Liabilities

(millions of Canadian dollars)		As at December 31, 2023	As at December 31, 2022
Trade payables and accrued liabilities	\$	127.7	110.5
Accrued payroll and related liabilities		32.0	39.6
	\$	159.7	150.1

8. Operating Loan

(millions of Canadian dollars)	As at December 31, 2023	As at December 31, 2022
Operating loan facility	\$ 160.0	\$ 110.0
Letters of credit	(6.9)	(12.9)
Operating loan facility drawn	(107.0)	(15.0)
Total available operating loan facility	\$ 46.1	\$ 82.1

On May 2, 2023, the Company converted its \$50.0 million non-revolving term debt (Note 9) 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. The operating loan facility is repayable on May 2, 2027.

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 has certain financial covenants, including a maximum debt to total capitalization ratio. As at December 31, 2023, the Company was fully in compliance with all covenants relating to its operating loan facility.

9. Term Debt

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 the Northwood Northern Bleached Softwood Kraft pulp mill's ("Northwood") recovery boiler number one ("RB1").

This new non-revolving term debt has a maturity date of May 2, 2027, with interest payable at floating interest rates consistent with its operating loan facility. As at December 31, 2023 the Company was fully in compliance with all covenants related to its non-revolving term debt which remains undrawn.

10. Employee Future Benefits

The Company, in participation with Canfor, has several funded and unfunded defined benefit pension plans, defined contribution plans, and other non-pension post-retirement benefit plans that provide benefits to substantially all salaried employees and certain hourly employees. Defined benefit pension plans are based on years of service and final average salary (for salaried employees), and flat rate benefit and years of service (for hourly employees). CPPI's other non-pension post-retirement benefit plans are non-contributory and include a range of health care and other benefits.

Total cash payments for employee future benefits for 2023 were \$16.7 million (December 31, 2022 – \$14.5 million), consisting of cash contributed by CPPI to its funded pension plans, cash payments directly to beneficiaries for its unfunded other non-pension post-retirement benefit plans, and cash contributed to its defined contribution and other plans.

Defined benefit plans

CPPI measures its accrued retirement benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

As at December 31, 2023, CPPI has one registered defined benefit pension plan for which an actuarial funding valuation is performed at least once every three years. This registered pension plan underwent an actuarial valuation for funding purposes as at December 31, 2022, which was completed in 2023. The next actuarial valuation for funding purposes is currently scheduled for December 31, 2025, to be completed in 2026. The remaining non-registered pension plans also underwent actuarial valuations as at December 31, 2022, which were completed in 2023. In addition, CPPI has other non-contributory benefit plans that provide certain non-pension post-retirement benefits to its members. The actuarial valuations for the non-pension post-retirement benefit plans were conducted as at December 31, 2023.

Information about CPPI's defined benefit plans, in aggregate, is as follows:

Fair market value of plan assets	2023		2022	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
(millions of Canadian dollars)				
Beginning of year	\$ 59.2	\$ -	\$ 149.9	\$ -
Interest income on plan assets	2.8	-	4.5	-
Return on plan assets greater (less) than discount rate	6.4	-	(27.2)	-
Employer contributions	4.7	1.1	2.2	1.1
Benefit payments	(3.4)	(1.1)	(8.3)	(1.1)
Settlement of buy-in annuity contracts	-	-	(61.8)	-
Administration costs	(0.4)	-	(0.1)	-
End of year	\$ 69.3	\$ -	\$ 59.2	\$ -

Plan assets consist of the following:	As at December 31, 2023	As at December 31, 2022
		Percentage of Plan Assets
Asset category		
Equity securities	59%	61%
Debt securities	41%	39%
	100%	100%

Accrued benefit obligations	2023		2022	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
(millions of Canadian dollars)				
Beginning of year	\$ 77.6	\$ 28.4	\$ 175.4	\$ 35.1
Current service cost	1.3	0.6	2.8	0.7
Interest cost	3.6	1.3	5.2	1.0
Benefit payments	(3.4)	(1.1)	(8.3)	(1.1)
Actuarial loss (gain)	1.4	(3.2)	(35.7)	(7.3)
Settlement of buy-in annuity contracts	-	-	(61.8)	-
End of year	\$ 80.5	\$ 26.0	\$ 77.6	\$ 28.4

Of the defined benefit pension plan obligation of \$80.5 million (December 31, 2022 – \$77.6 million), \$69.1 million (December 31, 2022 – \$65.8 million) relates to the registered plan that is partially funded and \$11.4 million (December 31, 2022 – \$11.8 million) relates to the supplemental plans that are unfunded, with letters of credit securing \$4.6 million (December 31, 2022 – \$6.0 million) of the unfunded liability.

The total obligation for the non-pension post-retirement benefit plans of \$26.0 million (December 31, 2022 – \$28.4 million) is unfunded.

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.

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.

Reconciliation of funded status of defined benefit plans to amounts recorded in the consolidated financial statements

(millions of Canadian dollars)	2023		2022	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
Fair market value of plan assets	\$ 69.3	\$ -	\$ 59.2	\$ -
Accrued benefit obligations	(80.5)	(26.0)	(77.6)	(28.4)
Funded status of plans – deficit	(11.2)	(26.0)	(18.4)	(28.4)
Other pension plans	(1.6)	-	(1.6)	-
Total accrued benefit liability, net	\$ (12.8)	\$ (26.0)	\$ (20.0)	\$ (28.4)

Of the net defined benefit pension plan obligation of \$11.2 million, \$4.6 million (December 31, 2022 – \$6.0 million) is secured by letters of credit.

The net accrued benefit liability is included in the Company's consolidated balance sheet as follows:

(millions of Canadian dollars)	2023		2022	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
Retirement benefit surplus	\$ 0.2	\$ -	\$ -	\$ -
Retirement benefit obligations	(13.0)	(26.0)	(20.0)	(28.4)
Total accrued benefit liability, net	\$ (12.8)	\$ (26.0)	\$ (20.0)	\$ (28.4)

Components of pension cost

The following table shows the before tax impact on net income (loss) and other comprehensive income of the Company's defined benefit pension and other non-pension post-retirement benefit plans:

(millions of Canadian dollars)	2023		2022	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
Recognized in net income (loss)				
Current service cost	\$ 1.3	\$ 0.6	\$ 2.8	\$ 0.7
Administration cost	0.2	-	0.1	-
Interest cost, net	0.8	1.3	0.7	1.0
Total expense included in net income (loss)	\$ 2.3	\$ 1.9	\$ 3.6	\$ 1.7
Recognized in other comprehensive income				
Actuarial loss (gain) – experience	\$ 0.6	\$ (0.5)	\$ (2.6)	\$ -
Actuarial loss (gain) – financial assumptions	0.8	(2.7)	(33.1)	(7.3)
Return on plan assets less (greater) than discount rate	(6.4)	-	27.2	-
Other costs	0.2	-	-	-
Total gain in other comprehensive income	\$ (4.8)	\$ (3.2)	\$ (8.5)	\$ (7.3)

Significant assumptions

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

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 (December 31, 2022 – 21.3 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 (December 31, 2022 – 13.5 years). The weighted average duration of the other benefit plans is 11.2 years (December 31, 2022 – 10.7 years).

Sensitivity analysis

Assumed discount rates and medical cost trend rates have a significant effect on the accrued retirement benefit obligation and related plan assets. A one percentage point change in these assumptions would have the following effects on the accrued retirement benefit obligation for 2023:

(millions of Canadian dollars)	1% Increase	1% Decrease
Defined benefit pension plan liabilities		
Discount rate	\$ (8.5)	\$ 10.3
Other benefit plan liabilities		
Discount rate	\$ (2.9)	\$ 3.5
Initial medical cost trend rate	\$ 1.4	\$ (1.4)

With respect to the discount rate sensitivity effect on the defined benefit pension plan liabilities, it is noted that 41% (December 31, 2022 – 39%) is partially offset through the plan's investment in debt securities.

As at December 31, 2023, estimated contribution payments of \$2.0 million will be made to the Company's defined benefit pension plans in 2024 based on the last actuarial valuation for funding purposes.

Defined contribution and other plans

The total expense recognized in 2023 for CPPI's defined contribution plans was \$2.7 million (December 31, 2022 – \$3.0 million).

CPPI contributes to a pulp industry pension plan providing pension benefits. This plan is accounted for as a defined contribution plan. Contributions to this plan, not included in the expense for the defined contribution plan above, amounted to \$8.2 million in 2023 (December 31, 2022 – \$8.2 million).

11. Asset Retirement Obligations

The following table provides a reconciliation of the asset retirement obligations included in 'Other long-term provisions' on the consolidated balance sheet as at December 31, 2023 and December 31, 2022:

(millions of Canadian dollars)	2023	2022
Asset retirement obligations at beginning of year	\$ 5.1	\$ 8.1
Accretion expense	0.2	0.2
Changes in estimates	0.2	(2.2)
Cash payments	-	(1.0)
Asset retirement obligation at end of year	\$ 5.5	\$ 5.1

CPPI's asset retirement obligations represent estimated undiscounted future payments of \$9.3 million (December 31, 2022 – \$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% (December 31, 2022 – 3.3% to 3.8%).

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.

12. Share Capital

Authorized

Unlimited number of common shares, no par value.

Issued and fully paid

	2023		2022	
(millions of Canadian dollars, except number of shares)	Number of Shares	Amount	Number of Shares	Amount
Common shares at beginning and end of year	65,233,559	\$ 480.8	65,233,559	\$ 480.8

The holders of common shares are entitled to vote at all meetings of shareholders of the Company and are entitled to receive dividends when declared. Dividends were suspended for the foreseeable future in the first quarter of 2020 due to challenging market conditions.

Basic net income (loss) per common share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. The weighted average number of common shares outstanding for 2023 is 65,233,559 (December 31, 2022 – 65,233,559).

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%).

13. Asset Write-Down, Impairment and Restructuring Costs

In connection with the closure of the pulp line at the Prince George pulp and paper mill in April 2023, the Company recognized restructuring costs of \$3.2 million for the year ended December 31, 2023 (2022 – \$7.9 million related to the curtailment of the Company's Taylor BCTMP mill).

As a result of continued uncertainty surrounding fibre availability for its 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 the Company's weighted average cost of capital for 2023 (unchanged from 2022).

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 (2022 – asset write-down and impairment charge of \$49.6 million).

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.

14. Finance Expense, Net

(millions of Canadian dollars)	2023		2022	
Interest expense on borrowings	\$	(10.5)	\$	(5.3)
Interest expense on retirement benefit obligations, net		(2.1)		(1.7)
Interest income		0.5		0.3
Other finance expenses		(1.1)		(0.6)
Finance expense, net	\$	(13.2)	\$	(7.3)

15. Other Income, Net

During 2023 the Company received insurance proceeds of \$9.3 million related to operating downtime experienced at Northwood in recent years, included in 'Other income, net' on the consolidated statement of income (loss).

16. Income Taxes

The components of income tax recovery are as follows:

(millions of Canadian dollars)	2023	2022
Current	\$ (0.5)	\$ 6.4
Deferred	36.9	22.8
Income tax recovery	\$ 36.4	\$ 29.2

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
Income tax recovery at statutory rate of 27.0% (2022 – 27.0%)	\$ 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 (2022 - \$4.3 million).

The tax effects of the significant components of temporary differences that give rise to deferred income tax assets and liabilities are as follows:

(millions of Canadian dollars)	As at December 31, 2023	As at December 31, 2022
Deferred income tax assets		
Loss carryforwards	\$ 50.3	\$ 14.4
Retirement benefit obligations	10.0	12.6
Other	3.8	4.4
	\$ 64.1	\$ 31.4
Deferred income tax liabilities		
Depreciable capital assets	\$ (84.2)	\$ (86.3)
Other	(0.5)	(0.5)
	(84.7)	(86.8)
Total deferred income taxes, net	\$ (20.6)	\$ (55.4)

The Company has non-capital loss carry-forwards of approximately \$186.3 million (2022 - \$53.5 million) in Canada which expire between 2042 and 2043.

17. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)	2023	2022
Accounts receivable	\$ 33.5	\$ (11.4)
Inventories	7.4	28.6
Prepaid expenses and other	15.7	(14.8)
Accounts payable and accrued liabilities	7.4	(6.4)
Net change in non-cash working capital	\$ 64.0	\$ (4.0)

18. Related Party Transactions

CPPI undertakes transactions with various related entities. These transactions are in the normal course of business, except where noted otherwise.

In 2023, the Company depended on Canfor to provide approximately 57% (December 31, 2022 – 64%) 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 (December 31, 2022 – \$154.2 million).

Canfor provides certain business and administrative services to CPPI under a services agreement. The total amount charged for the services provided by Canfor in 2023 was \$21.0 million (December 31, 2022 – \$24.7 million). This amount is included in 'Manufacturing and product costs', 'Selling and administration costs', and 'Finance expense, net'.

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 (December 31, 2022 – \$2.8 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 (December 31, 2022 – \$19.0 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 (December 31, 2022 – 52.6%). During 2023, CPPI sold paper to subsidiaries owned by The Jim Pattison Group totaling \$4.5 million (December 31, 2022 – \$3.4 million). CPPI also made purchases from subsidiaries owned by The Jim Pattison Group totaling \$0.7 million (December 31, 2022 – \$0.5 million). At December 31, 2023, no amounts were receivable from subsidiaries owned by The Jim Pattison Group (December 31, 2022 – \$0.1 million).

During 2023 and 2022, Canfor also made contributions to certain post-employment benefit plans for the benefit of CPPI employees (see Note 10, 'Employee Future Benefits', for further details).

Key management personnel

Key management includes members of the Board of Directors and the senior executive management team. The compensation expense for key management for services is as follows:

(millions of Canadian dollars)	2023	2022
Short-term benefits	\$ 3.6	\$ 3.5
Post-employment benefits	0.5	0.3
	\$ 4.1	\$ 3.8

Short-term benefits for members of the Board of Directors include an annual retainer.

19. Segment Information

The Company has two reportable segments, pulp and paper, which operate as separate business units and represent separate product lines. The following summary describes the operations of each of the Company's reportable segments:

- *Pulp* – Includes purchase of residual fibre, and production and sale of pulp products, including NBSK pulp and BCTMP as well as energy revenues; and
- *Paper* – Includes production and sale of paper products, including bleached, unbleached and coloured paper.

Sales between the pulp and paper segments are accounted for at prices that approximate fair value. These include sales of slush pulp from the pulp segment to the paper segment.

Information regarding the operations of each reportable segment is included in the following table. The accounting policies of the reportable segments are described in Note 3.

The Company's interest-bearing liabilities are not considered to be segment liabilities, but rather, are managed centrally by the treasury function. Other liabilities are not split by segment for the purposes of allocating resources and assessing performance.

(millions of Canadian dollars)	Pulp	Paper	Unallocated	Elimination Adjustment	Consolidated
Year ended December 31, 2023					
Sales from contracts with customers	\$ 673.4	\$ 202.1	\$ -	\$ -	\$ 875.5
Sales to other segments	107.8	-	-	(107.8)	-
Operating income (loss)	(127.2)	11.9	(12.2)	-	(127.5)
Amortization	82.4	2.5	0.1	-	85.0
Capital expenditures³	57.8	2.0	0.7	-	60.5
Total assets	564.0	77.8	34.0	-	675.8
Year ended December 31, 2022					
Sales from contracts with customers	\$ 888.7	\$ 196.9	\$ -	\$ -	\$ 1,085.6
Sales to other segments	123.8	-	-	(123.8)	-
Operating income (loss)	(110.9)	18.2	(13.3)	-	(106.0)
Amortization	95.7	2.0	0.1	-	97.8
Capital expenditures ³	110.0	0.6	2.0	-	112.6
Total assets	663.3	66.9	25.8	-	756.0

³ Capital expenditures represent cash paid for capital assets during the periods and include capital expenditures that were partially financed by government grants.

Geographic information

CPPI's products are marketed worldwide, with sales made to customers in a number of different countries. The following table presents sales based on geographical locations of CPPI's customers:

(millions of Canadian dollars)	2023		2022	
Sales by location of customer				
Canada	9%	\$ 82.3	7%	\$ 79.3
Asia	57%	500.6	60%	654.4
United States	24%	210.0	25%	268.5
Europe	6%	49.6	5%	53.3
Other	4%	33.0	3%	30.1
	100%	\$ 875.5	100%	\$ 1,085.6

20. Commitments and Contingencies

At December 31, 2023, CPPI has contractual commitments for \$27.6 million (December 31, 2022 – \$24.4 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.

In the ordinary course of its business activities, the Company may be subject to, or enter into, legal actions and claims with customers, unions, suppliers or others.

In circumstances where the Company is not able to determine the outcome of a legal action and claim, no amount is recognized in the consolidated financial statements, with an amount accrued only when a reliable estimate of the obligation can be made. Although there can be no assurance as to the disposition of a legal action and claim, it is the opinion of Management, based upon the information available at this time, that the expected outcome of a legal action and claim, individually or in aggregate, is unlikely to have a material adverse effect on the operating results and financial condition of the Company as a whole.

Energy Agreements

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 (December 31, 2022 – \$2.2 million) under these agreements and had no repayment obligations under the terms of any of these agreements.

21. Risks and Uncertainties

Financial risk management

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.

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 include 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 (December 31, 2022 – \$14.7 million).

CPPI utilizes credit insurance to mitigate the risk associated with some of its trade accounts receivables. As at December 31, 2023, approximately 77% (December 31, 2022 – 87%) 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 (December 31, 2022 – \$83.4 million, before a loss allowance of \$1.0 million). At December 31, 2023, approximately 100% (December 31, 2022 – approximately 100%) of the trade accounts receivable balance is within CPPI's established credit terms.

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 (December 31, 2022 – \$15.0 million) and \$6.9 million reserved for several standby letters of credit (December 31, 2022 – \$12.9 million), leaving \$46.1 million available and undrawn (December 31, 2022 – \$82.1 million). As a result, including cash and cash equivalents of \$21.1 million (December 31, 2022 – \$14.7 million) and the Company's \$80.0 million non-revolving term debt, which is restricted for use on the continued re-investment in its facilities, specifically Northwood's RB1, at December 31, 2023, the Company had available liquidity of \$147.2 million (December 31, 2022 – \$96.8 million). The Company also had accounts payable and accrued liabilities of \$159.7 million (December 31, 2022 – \$150.1 million), and no amounts drawn on the non-revolving term debt (December 31, 2022 – \$50.0 million).

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 into 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 and December 31, 2022, the Company had no fixed interest rate swaps, foreign exchange contracts, pulp futures, energy fixed swaps or option contracts outstanding.

Capital management

CPPI's objectives when managing capital are to maintain a strong balance sheet and a globally competitive cost structure that ensures adequate liquidity to maintain and develop the business throughout the commodity price cycle.

CPPI's capital is comprised of net debt and shareholders' equity:

<i>(millions of Canadian dollars)</i>	As at December 31, 2023	As at December 31, 2022
Total debt (including operating loan)	\$ 107.0	\$ 65.0
Less: cash and cash equivalents	(21.1)	(14.7)
Net debt	\$ 85.9	\$ 50.3
Total equity	337.1	427.4
	\$ 423.0	\$ 477.7

The Company manages its capital structure through rigorous planning, budgeting and forecasting processes, and ongoing management of operations, investments and capital expenditures. In 2023, to meet CPPI's operating and return on invested capital objectives, the Company's management of capital was comprised of maintenance of business investment in the Company's operations and the inspection of RB1. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

22. Financial Instruments

CPPI's cash and cash equivalents, trade and other accounts receivable, operating loan, term debt and accounts payable and accrued liabilities are classified as measured at amortized cost in accordance with IFRS 9 *Financial Instruments*. The carrying amounts of these instruments, excluding term debt, approximate fair value at December 31, 2023.

When applicable, derivative instruments are classified as measured at FVTPL. IFRS 13 *Fair Value Measurement*, requires classification of these items within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, directly or indirectly;
- Level 3 – Inputs that are not based on observable market data.

The Company uses a variety of derivative financial instruments from time to time to reduce its exposure to risks associated with fluctuations in foreign exchange rates, energy prices and interest rates. As at December 31, 2023 and December 31, 2022, the Company had no derivative financial instruments outstanding.

23. Subsequent Events

In February 2024, the Company 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 during the first quarter of 2024.

On March 1, 2024, the Company received insurance proceeds of \$15.0 million related to operational downtime experienced at Northwood in recent years that will be recognized in 'Other income, net' on the Company's consolidated statement of income (loss) during the first quarter of 2024.