



## 2022 Chairman and Chief Executive Officer's Letter to Shareholders

This letter is intended to update my fellow shareholders on the progress we have made over the past year and our strategic priorities for the future.

First, as an organization, we would like to thank Rick Doman for the creation of GreenFirst. It was Rick who initially came forward with the opportunity to purchase the Kenora sawmill, that was the start of our company. Unfortunately, for personal reasons, Rick needed to step back from day-to-day operations. He continues to support GreenFirst and provides his guidance as a member of the Board of Directors. Thankfully, we have an extremely dedicated executive team led by Michel Lessard, our President, Alfred Colas, our Chief Financial Officer, and Gwen Webster, our Chief of Staff. Special thanks to Michel for making the huge leap of faith when he left his tenured executive position at the much larger Rayonier Advanced Materials to join our start-up company and for his unwavering support and loyalty, particularly through this interim period.

### Good Fortune, Great People and Trusted Relationships

We began with the acquisition of the Kenora sawmill from the Prendville family. The family had recently invested over \$25 million in mill upgrades but unfortunately was undergoing financial trouble due to historically low lumber pricing, crippling softwood lumber duties and pandemic disruption. We purchased the sawmill from its creditors for \$11.5 million, this included the additional surrounding acreage. The transaction was completed with the help of a publicly-traded shell company, Itasca, and its former CEO, Larry Swets Jr, and Chairman, Kyle Cerminara (Itasca had a \$10 million market capitalization at the time). Covid restrictions prevented Larry from being able to visit the Kenora mill prior to purchase. He had to trust us.

After our first sawmill purchase, we renamed our small company GreenFirst (to reflect our connection to the forest and the renewable nature of our business). We then set out, in the heart of the pandemic, to make an audacious US\$235 million bid to buy the sawmills, paper mill and related assets from Rayonier. We did not have a team, or frankly the capital yet, but thankfully we had relationships that trusted us. Paul Boynton, Rayonier's CEO at the time, had previously purchased shares of Tembec (which included the Rayonier sawmills) from us when I was at Fairfax Financial. We helped Paul and Rayonier close the deal to acquire Tembec by giving him a hard lock-up. We trusted him, and years later he returned the favour and trusted us, including taking a large block of GreenFirst stock as part of the consideration to acquire the assets. To get the acquisition across the finish line though, we needed additional capital and a new relationship, which ultimately led us to Brian Gonick at Senvest Management. After calling dozens of potential investors, Brian took my cold call and immediately grasped the opportunity. Brian is an astute investor and exceptional shareholder of GreenFirst, we thank him for his trust and continued support.

The final piece of the funding puzzle came from the oversubscribed \$167 million rights offering. The enthusiasm and trust from you, our shareholders, was incredible. The successful completion of the rights offering allowed us to move forward with the acquisition of the Rayonier assets with substantially less debt.



I would be remiss not to thank Mike Mitchell, who was instrumental in helping with the rights offering and subsequently joined our Board of Directors.

We have not looked back since the August 2021 closing of the acquisition of the Rayonier assets. After initially onboarding and transitioning the inherited employees and mills, we set a course to simplify and rationalize the business and unearth trapped capital.

### **Key Milestones**

Here are some of our key milestones in 2022:

- opened a new corporate back office in North Bay, Ontario, in order to get us closer to the forests and the mills we operate;
- graduated from the TSX venture exchange to the TSX main board;
- hired Alfred Colas as our Chief Financial Officer;
- partnered with Bank of Montreal who provided a credit facility to replace our acquisition debt financing;
- sold 203,000 acres of land near Kapuskasing, Ontario, for net proceeds of \$49 million;
- sold the La Sarre and Béarn sawmills, along with related operations, in Quebec for approximately \$94 million; and
- entered into a multi-year partnership with a leading company in the printing industry.

With the sale of our two Quebec sawmills, we have had to say goodbye to over 500 hard-working employees, many of whom have worked in the region with these assets for generations. We thank these dedicated employees for their service and we appreciate that the purchaser, Chantiers Chibougamau Ltée, a family-owned operation, welcomed our employees with open arms.

The sale of the Kapuskasing land and our two Quebec sawmills is part of a strategic plan to simplify and optimize our business, and ensure we are soundly financed with a clear focus on prudent capital allocation and return on invested capital. Over the course of 2023, we will evaluate the highest and best use for funds from these dispositions.

We continue to reinforce our on-going commitment to environmental sustainability and responsible stewardship of the forests we manage. Through collaborations with academia, government and environmental organizations and on-going partnerships with Indigenous communities across northeastern Ontario, we work collaboratively to improve sustainable forest management practices, protect rights and advance mutual interests.

Forest Stewardship Council® (FSC® C167905) certification is in place on all forests where GreenFirst operates. In Kapuskasing, Ontario, 2023 marks the 20<sup>th</sup> year of continuous FSC® certification for the Gordon Cosens Forest, the first forest to be awarded such certification in Canada's boreal forest region.



## Undervalued Assets

Following the recent dispositions discussed above, it is important to note that we continue to possess substantial assets and opportunities, many of which have the potential of surfacing unrecognized value:

- four uniquely positioned sawmills with 510 million board feet production capacity located in close proximity to abundant forests with a dedicated 2.6 million cubic metres of annual allowable cut in Northern Ontario (all assets held at a significant discount to replacement cost);
- an over-funded pension with a 27% funding surplus that was safe-harboured through 2022;
- 4,000 acres of property, with key developable lots in Kenora, Kapuskasing and Timmins;
- Boreal Carbon share ownership;
- \$77 million of duties on deposit; and
- \$128 million and \$14 million in non-capital and capital tax loss carryforwards, respectively.

With the sale of the Quebec sawmills, we simplified our organizational footprint in order to ensure we achieve a more streamlined, cost-effective operating platform. Getting smaller in the short-term will hopefully allow for sustainable and more profitable growth in the future. With a prudent focus on capital projects and increased productivity, we believe our four mills in Chapleau, Cochrane, Hearst and Kapuskasing have the ability to increase production in the coming years. Our recent efforts to improve operational efficiency have begun to yield positive results, with several cost-effective improvements in our manufacturing processes reducing bi-products and improving productivity without sacrificing product quality.

These productivity gains will be supported by our designated annual allowable cutting rights. The general wood fibre basket is shrinking in Canada. In this environment, our annual allowable cut provides us with a competitive advantage in the stable, business-friendly jurisdiction of Ontario.

In early 2022, we became concerned about the potential of a significant increase in interest rates and the adverse impact such increases would have on our pension plan assets. With the assistance of our Audit Committee Chair, Bill Harvey, and the Pension Committee, we moved GreenFirst's pension of over \$86 million, into short term securities in order to protect against what we believed would be impending rate hikes. This defensive move protected the assets while preserving our surplus at 27% at the end of 2022.

Following the sale of our large block of land near Kapuskasing, we continue to have 4,000 acres of land, with tracts of potentially developable property unrelated to our mill sites. We have been in discussions with various levels of government and private partners for the development of the former Kenora sawmill site, which will likely include healthcare, multi-family residential and commercial opportunities. We believe that there will be meaningful progress on this development in 2023. Likewise, we are exploring development opportunities in the Kapuskasing area.

GreenFirst has an ownership interest in Boreal Carbon, a company focused on growing forest-based carbon credit opportunities, which we helped start up in 2021. Since inception, Boreal Carbon has received additional rounds of external financing and is now actively pursuing timberland acquisition opportunities.



While we are strong believers in putting aside savings for a rainy day, the 20.23% forced US lumber duties ‘savings’ is a significant drag on our profitability. Our duty rate is set to be reduced in August of this year from the current 20.23% to align in the “all others” category, which was preliminarily calculated to be 8.24%. These forced savings for our small company are substantial to our bottom line, since we expense all duties we pay as part of our cost of sales. In 2022, our cumulative deposits were \$77 million. The last softwood lumber dispute with the United States was settled in 2006, resulting in a refund of \$5 billion (equating to 81% return of deposits back to Canadian lumber companies). The settlement expired in late 2015. Since 2016, total Canadian lumber industry deposits now exceed \$7 billion, the most on record. Given this extreme level of trapped capital, we fully expect a historically similar resolution, and release of capital at some point in the future.

We continue to have over \$128 million and \$14 million in non-capital and capital tax losses, respectively, that we expect will assist with shielding shareholders' returns from the value-enhancing transactions we have been advancing.

### **Growth Opportunities and Capital Allocation**

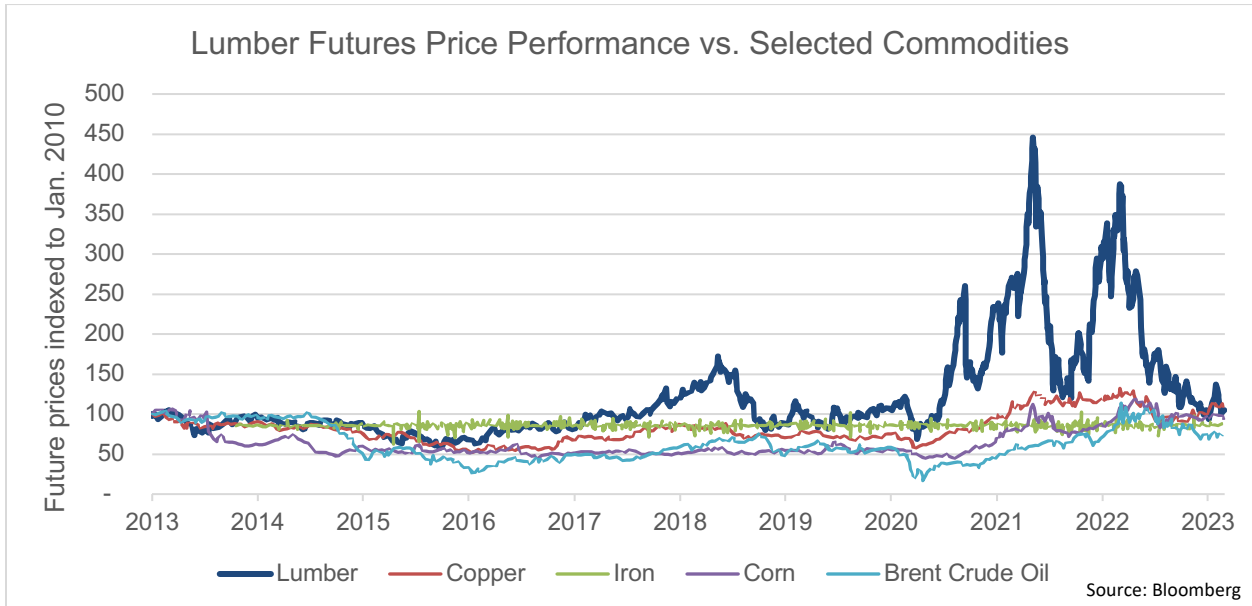
With the completion of our recent dispositions and the potential refund of duties on deposit, we foresee a future when our company may be over-capitalized. While we are always planning for the downside first, over-capitalization is a problem we will gladly tackle! Our first priority will always be the long-term sustainability of our company’s operations throughout volatile lumber commodity cycles. We will then look to prudently reduce debt leverage while also weighing share buybacks, dividends and productivity-enhancing capital projects.

Beyond the aforementioned capital-allocation priorities, we are carefully considering expanding the reach of our sales into new markets. We are also canvassing potential sawmill opportunities in new jurisdictions with a sustainable fibre and competitive power supply, with markets in close proximity and where startup costs are relatively low; all factors that would enable us to maximize returns on capital invested. Beyond these potential sawmill opportunities, we continue to evaluate relatively small tuck-in acquisitions as well as potential partnerships in areas such as co-generation and sustainable fuels to profitably utilize at our existing sites while continuing to reduce our carbon footprint.

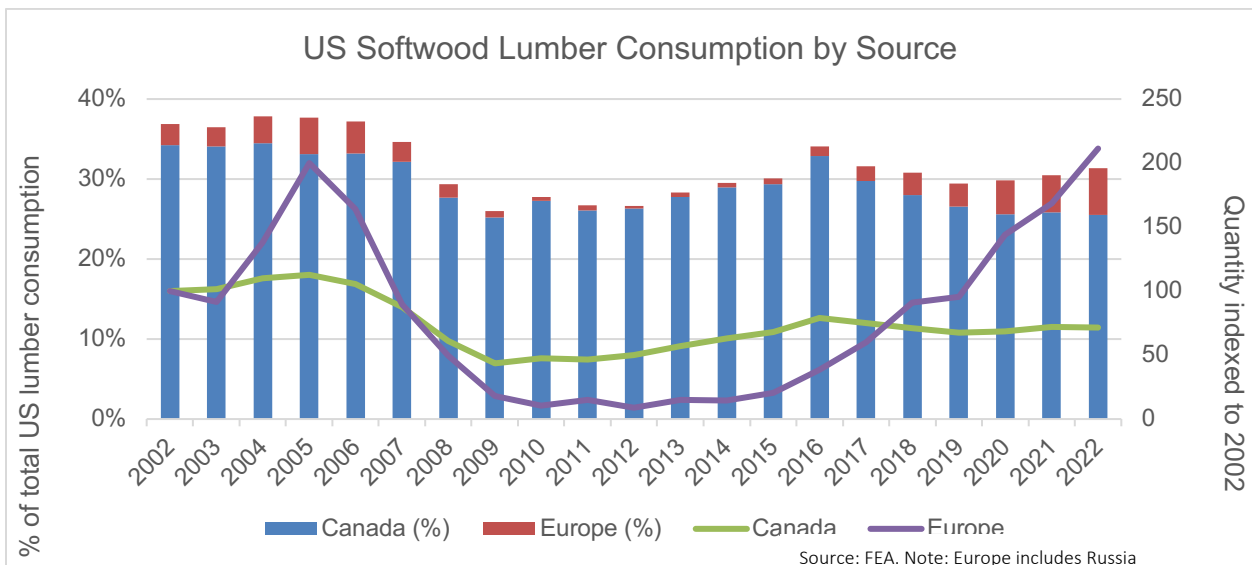
Rest assured that anything we do with your hard-earned capital will always be focused on downside protection and high rates of return.

### **Economic Outlook**

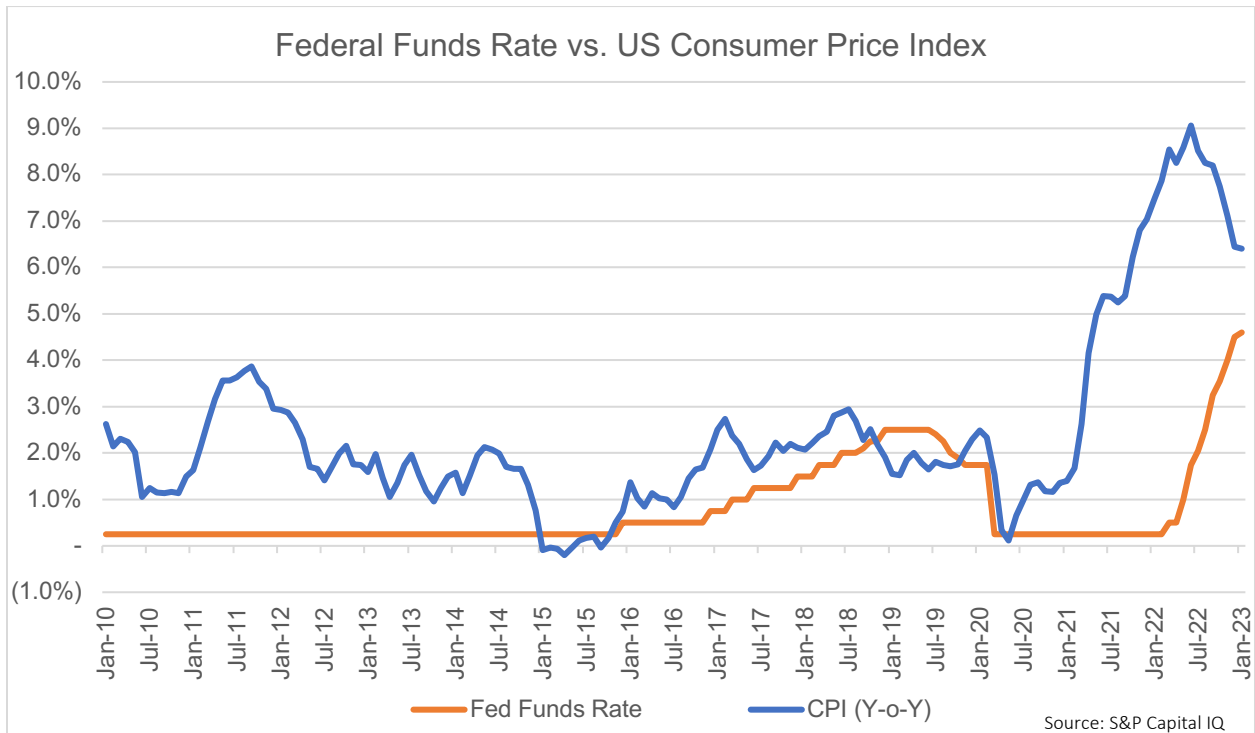
Lumber, particularly softwood lumber in the grades we sell, is a traded commodity, and volatile at that! In order for you, our shareholders, to better understand the prospects for our company, and the thought process we apply to the allocation of capital, it is important to explain some of the market dynamics we are currently working with now and in the future.



As the graph above demonstrates, unlike other commodities, lumber has been markedly more volatile, particularly over the last three years. This recent volatility was fuelled by pandemic-related renovation demand combined with reduced lumber supply resulting from production shutdowns. These factors were somewhat temporary; however, longer-term, there is a growing scarcity of wood fibre supply brought about by a number of factors, including naturally occurring deforestation through insect infestations and fires, increasing conservation and carbon credit forest sequestration projects, and trade restrictions.

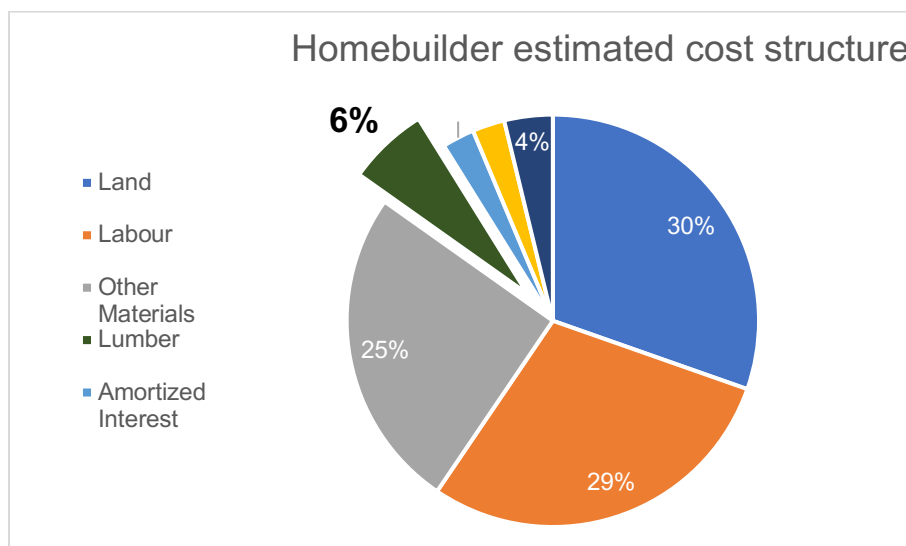


The insect and fire devastation in Canada, principally in British Columbia, resulted in the curtailment or closure of a number of sawmills and a gradual decline of Canadian lumber sales into the United States, illustrated in the graph above. This decline should eventually lead to a realization that Canadian lumber producers are not a threat to the US lumber industry.

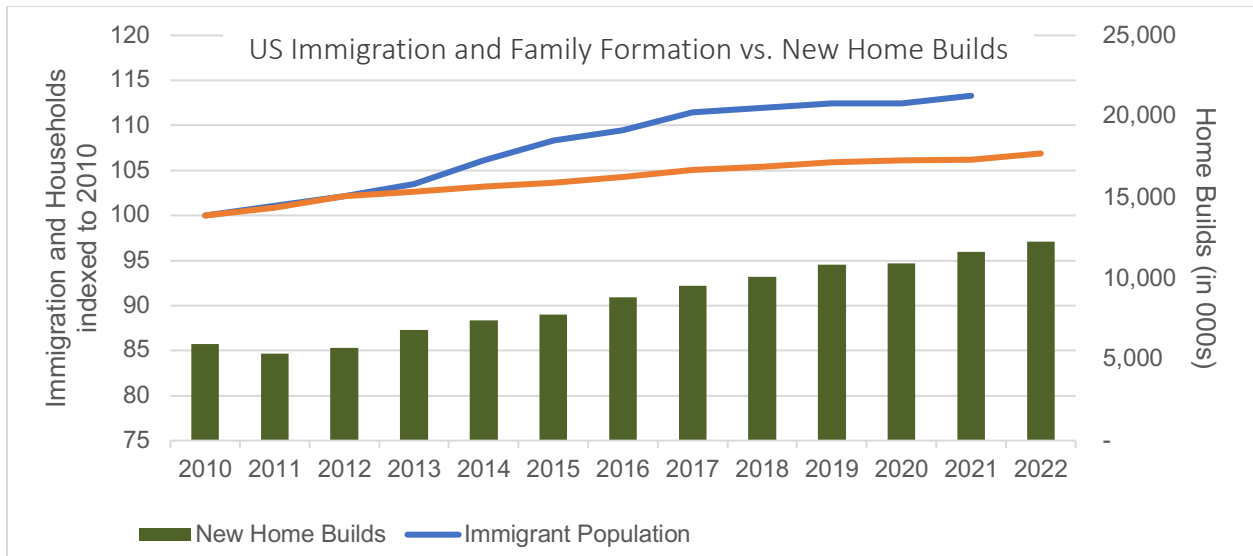


While concerns about constrained supply will be a moderating factor in the forest products sector for a least a generation, short-term demand moderation will continue as a result of higher interest rates and the fight against inflation, and the corresponding impact on new home construction in the US.

We have seen wage inflation across the industrial spectrum, and the lumber industry is not immune. However, despite increasing costs and corresponding increases in lumber prices, lumber continues to represent a small proportion of the construction cost of a new home.

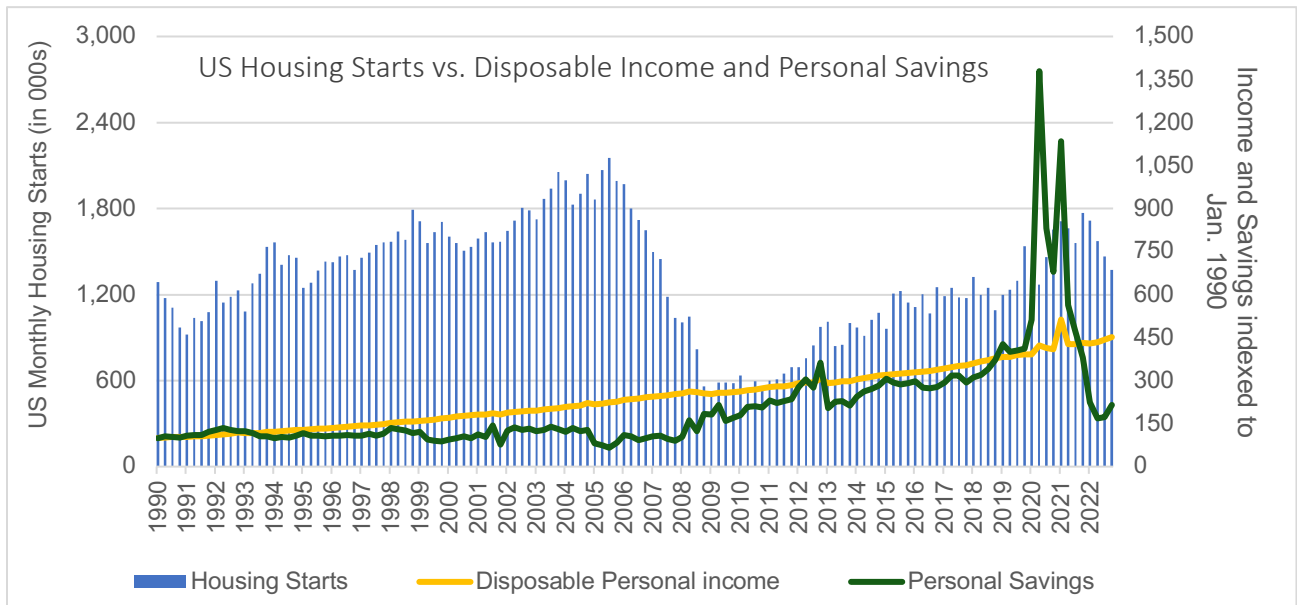


Source: UBS Research



Source: US Census Bureau and Federal Reserve Economic Data

Family formation and immigration continue to outpace new construction in North America, creating a housing deficit that is reaching crisis-level heights.



Source: Federal Reserve Data

The reality is that, from a long-term perspective, more homes will need to be built (increasing demand) while long-term lumber supply will continue to moderate (with Western-Canadian wood supply continuing to reduce). In short, we continue to be bullish on the long-term supply-demand dynamics for the lumber market in North America.



Looking ahead, we remain committed to our long-term strategy of prudent capital allocation, along with sustainable growth and profitability throughout the economic and corresponding commodity cycles. We will continue to focus on cost-effective operational efficiency, innovation, and potential market expansion, while maintaining our strong commitment to safety, environmental sustainability and responsible stewardship of our natural resources.

Finally, we would like to thank each of you for your confidence in our company. We are humbled by your continued support, and we remain focused on creating long-term sustainable value for our shareholders.

Your truly,

*Dated: March 14, 2023*

“PAUL RIVETT”

---

**Paul Rivett**

Interim Chief Executive Officer and Executive Chairman  
GreenFirst Forest Products