PRODUITS FORESTIERS
GREENFIRST
FOREST PRODUCTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SECOND QUARTER AND TWO QUARTERS ENDED JULY 1, 2023

GREENFIRST FOREST PRODUCTS INC.

Dated: August 9, 2023

Table of Contents

Background

This Management's Discussion and Analysis ("MD&A") provides information on GreenFirst Forest Products Inc. ("GreenFirst", the "Company", "we", "us", "our" or similar terms referring to GreenFirst) and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and notes thereto for the second quarter and two quarters ended July 1, 2023 ("Financial Statements"), which have been prepared in accordance and in compliance with International Accounting Standards ("IAS 34"), Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"), using the same accounting policies, including estimates and judgments and methods of application as those disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2022 ("Annual Financial Statements"), except as disclosed in note 3 of the Financial Statements. This MD&A should also be read in conjunction with the Company's Annual Financial Statements and the Annual Management's Discussion and Analysis for the year ended December 31, 2022 ("Annual MD&A"). This MD&A has been prepared as of August 9, 2023, and has been approved by the Company's Board of Directors.

In this MD&A, the Company uses a number of performance measures and indicators to monitor and analyze the financial results that do not have standardized meanings prescribed by IFRS and therefore may not be comparable to similar performance measures and indicators used by other issuers. Please refer to the "Non-GAAP Measures" section of this MD&A for details. All figures are stated in Canadian dollars, unless otherwise noted, and all references to "USD" or "US$" are to the United States dollar.

Forward-Looking Statements

This MD&A has been prepared taking into consideration information available as at August 9, 2023, and contains forward-looking information that involves risks and uncertainties. All statements, other than statements of historical facts should be considered forward-looking statements. Such forward-looking statements are based on management's exercise of business judgment as well as assumptions made by and information currently available to management. When used in this MD&A, the words "may"," will", "anticipate, "believe, "estimate", "expect" and "intend" and words of similar import, are intended to identify forward-looking statements.

Readers are cautioned not to place undue reliance on these forward-looking statements. These statements reflect management's current view of future events and are subject to certain risks and uncertainties as contained herein, and in the Company's other filings with Canadian securities regulatory authorities. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the Company's actual results could differ materially from those anticipated in these forward-looking statements. Management undertakes no obligation to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events. Although we believe that these expectations are based on reasonable assumptions, the Company can give no assurance that those expectations will materialize.

A comprehensive list of forward-looking statements the Company uses can be found in our Annual Information Form dated March 14, 2023 available at www.sedar.com.

Our Sustainable Business and Strategy

GreenFirst is a forest-first business, focused on sustainable forest management. Our business involves the manufacturing, selling, marketing and distributing of lumber and paper products. We believe that responsible forest practices, coupled with the long-term green carbon-capturing advantage of lumber, provide GreenFirst with significant cyclical and secular advantages in building products. GreenFirst's long-term vision is to be a green leader in the global forestry industry.

The Company has chosen to focus its operations in the province of Ontario. Its Quebec sawmills and related forest operations were sold on March 14, 2023 for approximately $94.1 million in gross proceeds, subject to final adjustments (See *Strategic Sale of Quebec Sawmills and Related Operations*). GreenFirst has four sawmills, one paper mill, timber licenses on crown forests in Ontario and a number of land parcels, including in Kenora. Its head office is located in Toronto, which is supported by its office in North Bay.

We aim to maximize value by achieving strong financial results while fostering a culture that emphasizes safe and responsible operations with cost-control awareness. We are conscious that we operate in an industry that is prone to cyclicality and price volatility, as demonstrated by recent swings in lumber prices. As a company, we are committed to being prudent and fiscally responsible in order to manage through these cycles and ensure long-term sustainable operations. Our capital allocation is carefully monitored by management and our Board of Directors to ensure that we maintain a strong balance sheet and liquidity profile. Our goal is to strategically invest in our Ontario operations to enhance productivity, capacity and lower our cost of production. We believe that a strong balance sheet also provides the financial flexibility to capitalize on growth opportunities.

GreenFirst is committed to maintaining and elevating high standards of sustainability throughout its operations. GreenFirst produces quality lumber and paper products in a safe and responsible manner to protect our employees and the environment, create long-term value for our stakeholders, and contribute positively to our collective future. We believe the Company's renewable building materials, which sequester carbon, are a natural solution in the fight against climate change.

GreenFirst is committed to the "Four Ps" value system ("Px4 Values") which puts in focus Principles, People, our Planet, and Progress. We intend to expand and intensify our sustainability practices throughout all our operations and activities by using our Px4 Values as a backdrop to ensure that we protect, revive and enrich the resources, the products and the communities on which we all depend on and thrive within.

Principles

GreenFirst is guided by business practices that are aligned with principles of good governance, transparency, inclusivity and shared prosperity for our shareholders, employees, customers and communities.

People

GreenFirst values our employees as our most important assets. Fostering diversity in the workplace with an environment that welcomes all people equally.

Planet

GreenFirst strives to become a global leader in sustainability, complying with certified Forest Management practices, recognizing that trees are an integral part of capturing carbon and addressing climate change.

Progress

GreenFirst prioritizes long-term values that create prosperity while making a positive impact on the environment, benefiting our employees, shareholders, customers and local communities from our success.

GreenFirst's ***environmental stewardship*** is rooted in our sustainable forest management practices which maximize biodiversity and forest health and promote efficient energy consumption, striving to use the whole tree. The green advantages of lumber include the fact it is carbon-negative and is the only renewable building material. Lumber building materials require less energy to produce and transport than alternatives. By-products from lumber production, such as wood chips, can be used to generate energy with net-zero carbon emissions.

The Company's ***social responsibility*** centres around our commitment to a safe workplace, promoting diversity and expanding long-standing relationships with indigenous and rural communities, while welcoming all people equally.

Recent Business Highlights

Strategic Sale of Quebec Sawmills and Related Operations for $94 million

On March 14, 2023, the Company sold its two Quebec sawmills and related forest operations for approximately $94.1 million in gross proceeds, subject to final adjustments. This move allows the Company to focus its management resources and capital expenditures on its most profitable sawmills, located in the Province of Ontario.

Duties rate drop from 20.23% to 7.99%

The Company became eligible for a reduction in its softwood lumber duty rate from 20.23% to 7.99%, which took effect on August 1, 2023. This drop in duties rate will directly improve the Company's earnings and free cash flow profile.

Overpayment of Duties

The initial duty deposit rate, totaling 20.23%, has remained in effect since the Company's acquisition of its sawmill and paper mill assets in August 2021, and has resulted in a US$21 million overpayment in relation to its Canadian peers as at July 1, 2023, of which US$6 million relates to overpayments made in 2023, US$10 million of overpayments in 2022 and US$5 million of overpayments in 2021.

Turnaround of the Paper Mill and Move for Operational Decentralization

GreenFirst has benefited from improving results at its paper mill during the first and second quarters of 2023, compared to the prior year in which the mill's contribution remained negative for all four quarters. For the two quarters ended July 1, 2023, the operating income from the paper products segment was $3.2 million compared to an operating loss of $6.2 million in the prior year two quarters ended June 25, 2022. This turnaround is primarily driven by the restart and efficiency gains of the second paper machine, which continues to trend positively. However, the paper mill is faced with continued headwinds, including pricing pressures, related to its secularly declining paper products along with input supply pressure related to wood chips, which is key to ongoing productivity levels.

GreenFirst's paper mill operation has key operational and performance metrics that are very different from the lumber mill operations. With the paper mill now a contributing financial and operational performer within GreenFirst, after considerable consultation, the Board of Directors has determined to separate the lumber mill assets from the paper mill assets. It is believed that this separation of businesses and decentralization of management will provide for more expedient decision making, alignment of incentives and entrepreneurialism. This corporate decentralization will begin in the fall of this year and will also include some further reductions of overhead and operating costs.

Improvements in Lumber Pricing

Lumber pricing showed a positive trend toward the end of Q2 2023. These levels, coupled with the Company's newly revised duties rate, the Company's sawmills would be expected to generate positive earnings for the balance of the year.

Lower Finance Costs

Net finance costs for the Company during the second quarter of 2023 was less than $0.5 million compared to the same quarter in the prior year where the Company had $4.0 million reported, plus a $4.1 million loss on foreign exchange related to the then outstanding US denominated debt. The refinancing of the prior term debt has significantly reduced high levels of debt and interest, along with reducing the exposure to sensitivities in the CAD/USD exchange rate.

Financial Strength

As at August 9, 2023, the Company has total debt outstanding of $23.0 million, with approximately $42 million of excess availability under the revolving portion of the credit facility. The Company's current net debt to invested capital ratio of 6.91% (Please see - *Non-GAAP Measures*) allows us to have the financial flexibility to deal with the volatile lumber price environment. The Company is focused on its balance sheet and ability to maintain excess liquidity throughout commodity price cycles.

Kenora Re-development Plans

The Company is nearing the finalization of decommissioning the Kenora sawmill and has completed the move of the sawmill equipment to its operating sawmills. The Company is also evaluating its options to potentially redevelop a new sawmill in the Kenora area and sell the existing Kenora Property. To extract the most value from the potential sale of all or part of the Kenora Property, the Company has engaged a planning and design firm to prepare a master plan for developing the land and rezoning for non-industrial use.

A non-binding letter of intent has been executed for the sale of approximately 30 of the 118 acres with an institution, which requires Ontario government funding approval. We believe that there will be further meaningful progress on this development later in 2023.

Overhead and Cost Reduction Initiatives

With the sale of the Quebec sawmills, we are simplifying our organizational footprint in order to ensure we achieve a more streamlined, cost-effective operating platform. The Company has identified areas where it plans to achieve significant cost reductions, with several measures implemented in the second quarter of 2023. These included streamlining of shared services roles, headcount reductions, re-positioning key roles within the organization and critical review of expenditures, including deferral of non-core technology projects and initiatives. The Company is currently focused on decreasing cash production costs at its mills and improving its strategic sourcing. The Company has performed comprehensive reviews of its operational and support functions to align them better with its strategic direction and footprint.

GreenFirst's Capital Allocation

The sale of the private forest lands for $48.7 million and the Quebec sawmills for approximately $94.1 million, subject to final adjustments, is part of our strategic plan to optimize the business and ensure a clear focus on capital allocation and return on invested capital. These transactions have allowed the Company to repay a significant portion of its debt outstanding. As of August 9, 2023, the Company has total debt outstanding of $23.0 million. During the first two quarters ended July 1, 2023, the Company repaid $29.0 million of debt, with an additional $2.0 million repayment subsequently in July 2023. The Company repaid the term loan portion of the Credit Facility and is no longer subject to the minimum fixed charge coverage ratio financial covenant under the Credit Facility.

The Company's objectives when managing capital are to maintain a strong financial position, to continuously improve its cost structure, to maintain liquidity throughout commodity price cycles, to support access to additional capital for expansion and to ensure compliance with existing debt agreements. The Company defines capital as the sum of net debt and shareholder's equity.

As at		**July 1, 2023**
Total debt outstanding[1]	$	24,542
Less: cash and cash equivalents		(9,803)
Net debt		14,739
Shareholders' equity		198,633
Total capital	**$**	**213,372**

1. Total debt outstanding consists of the carrying amounts of the Company's credit facilities.

In addition to its prudent and solid financial position, the Company possesses valuable core assets and opportunities as follows:

- **Four uniquely positioned operating sawmills** in Ontario with over 510 million board feet of annualized production capacity. 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 potentially produce higher annual volumes of lumber in the coming years;

- **Abundant forests** with a dedicated 2.5 million cubic metres of annual allowable fibre supply in Ontario. The general fibre basket is shrinking in Canada and our allowable cut provides us with a competitive advantage in a stable, business-friendly jurisdiction;

- **Non-core parcels of land** with tracts of potential development-friendly property unrelated to our mill sites;

- **Redevelopment of the Kenora Property** for healthcare, multi-family residential or commercial opportunities;

- **Over-funded pension** assets of approximately $20.5 million (pre - asset ceiling test), which the Company was able to protect from some of the market volatility and preserve asset surpluses during 2022;

- Our prior **duty rate of 20.23%** reduced on August 1, 2023 to **7.99%**; US$21 million in overpayment subject to reimbursement, along with an additional US$51 million of duties on deposit pending a broader industry settlement;

- Available non-capital and capital **tax loss** carryforwards of $134.6 million and $11.6 million, respectively, which will shelter future taxable income;

- **Long-term relationships** with leading companies in the home improvement and printing segments.

Economic Outlook

The impact of higher interest rates, in response to rising inflation, has resulted in softened lumber demand since the midpoint of 2022. This led to a decline in lumber market prices throughout the second half of 2022, with those levels persisting in the first half of 2023. Further monetary tightening and interest rate increases could continue to put downward pressure on lumber market prices, which are expected to remain volatile over the near term. However, there is optimism amongst US homebuilders for growth during the balance of 2023, which started to positively impact lumber pricing from June 2023 onward. Due to lack of activity in the resale home market, as homeowners became increasingly reluctant to sell their homes with previously locked in favourable long-term mortgage rates, there was higher demand for new home builds in the US. In Canada, record levels of immigration are also expected to drive higher demand for new homes.

The industry is also experiencing tightening lumber supply, spurred on by the curtailment of lumber production in the Province of British Columbia. Additionally, there have been several disruptions and uncertainty around forestry activities due to historic levels of wildfires seen in Canada this summer. These supply constraints have provided positive pricing support.

The Company anticipates continued pricing pressures related to its newsprint products due to a drop in global demand. Additionally, the Company is facing increased pricing and supply challenges related to tightening wood chip supply, a key input for our paper mill operation.

The Company continues to experience challenges with an ongoing tight labour market, with some residual impacts of COVID-19. This continues to cause disruptions in the flow of production at the Company's mills. From a logistics standpoint, disruptions in trucking and rail have been minimized since the second quarter of 2022.

Inflationary pressures in North America have raised the cost of many inputs required for our operations. Ongoing shortages of people, materials or equipment could negatively impact the Company, as well as the industry. Many of these pressures arose due to the COVID-19 pandemic, and they continue to be a significant factor affecting our business.

Financial Highlights

The following selected financial information is derived from the Company's interim financial statements for the first quarter ended April 1, 2023, second quarter and two quarters ended July 1, 2023, June 25, 2022 and the annual financial statements and MD&A for the year ended December 31, 2022:

For the quarter ended	July 1, 2023	April 1, 2023(1)(2)	June 25, 2022(1)(2)
Net sales from continuing operations			
Forest products(4)	**$ 73,475**	$ 61,272	$ 137,993
Paper products	**38,153**	37,845	22,736
Total net sales from continuing operations	**111,628**	99,117	160,729
Operating (loss) earnings from continuing operations	**(9,453)**	(19,510)	36,222
Net (loss) earnings	**(9,671)**	(18,417)	30,650
Net (loss) earning from continuing operations	**(9,671)**	(20,200)	16,709
Basic (loss) earnings per share	**(0.05)**	(0.10)	0.17
Basic (loss) earnings per share from continuing operations	**(0.05)**	(0.11)	0.09
Diluted (loss) earnings per share	**(0.05)**	(0.10)	0.16
Diluted (loss) earnings per share from continuing operations	**(0.05)**	(0.11)	0.09
Adjusted EBITDA from continuing operations(3)	**$ (5,012)**	$ (15,166)	$ 39,226

For the two quarters ended	July 1, 2023(2)	June 25, 2022(1)(2)
Net sales from continuing operations		
Forest products(4)	**$ 134,747**	$ 243,026
Paper products	**75,998**	37,420
Total net sales from continuing operations	**210,745**	280,446
Operating (loss) earnings from continuing operations	**(28,963)**	62,895
Net (loss) earnings	**(28,088)**	65,964
Net (loss) earning from continuing operations	**(29,871)**	38,000
Basic (loss) earnings per share	**(0.16)**	0.37
Basic (loss) earnings per share from continuing operations	**(0.17)**	0.21
Diluted (loss) earnings per share	**(0.16)**	0.35
Diluted (loss) earnings per share from continuing operations	**(0.17)**	0.20
Adjusted EBITDA from continuing operations(3)	**$ (20,178)**	$ 68,812

As at	July 1, 2023	December 31, 2022(1)
Total assets	**$ 283,659**	$ 371,504
Total liabilities	**85,026**	147,042
Total shareholders' equity	**$ 198,633**	$ 224,462

[1]Certain prior period amounts have been restated as a result of the Company finalizing its purchase price accounting related to the Rayonier Asset Acquisition, as allowed under IFRS. Please refer to Note 4 - Acquisition of Sawmills and Paper Mill, in the Company's Annual Financial Statements for further information.
[2]Certain prior period amounts have been restated as a result of a change in presentation of the Company's Financial Statements for continuing and discontinued operations under IFRS. Please refer to Note 4 - Discontinued Operations, in the Company's Financial Statements for further information.
[3]Adjusted EBITDA is a Non-GAAP measure and does not have standardized meaning under GAAP or IFRS. As a result, it may not be comparable to information presented by other companies. For an explanation and reconciliation of Adjusted EBITDA to related comparable financial information presented in the Financial Statements prepared in accordance with IFRS, refer to the *Non-GAAP Measures* section in this MD&A.
[4]Includes net sales to external parties only.

Non-GAAP Measures

EBITDA and Adjusted EBITDA are used by the Company and its investors as a means of assessing the performance of its core operations in comparison to prior periods. EBITDA and Adjusted EBITDA are non-GAAP measures and are not intended to replace net earnings (loss), or other measures of financial performance and liquidity reported in accordance with IFRS.

References to EBITDA in this document are measures of earnings (loss) before interest and finance costs, income taxes, depreciation and amortization, while references to Adjusted EBITDA reflect EBITDA plus other non-operating costs such as acquisition and transaction-related costs, impact of valuation changes on the Company's investments, the impact of foreign exchange on the Company's long-term debt, loss on extinguishment of debt, gain on sale of assets and other non-operating losses. Management believes that certain lenders, investors, and analysts use EBITDA and Adjusted EBITDA as a common valuation measurement and to measure the Company's ability to service debt and meet other payment obligations.

Management has utilized net debt and net debt to invested capital as a key indicator to monitor its debt levels and leverage. Net debt is defined as borrowings under the Company's credit facilities and term loans, less cash and cash equivalents. Invested capital is calculated as the sum of net debt and shareholders' equity. These are non-GAAP financial measures and are not intended to replace other measures of financial performance and liquidity reported in accordance with IFRS.

Adjusted EBITDA

For the quarter ended		**July 1, 2023**	April 1, 2023[2]	June 25, 2022[1][2]
Net (loss) earnings from continuing operations	**$**	**(9,671)** $	(20,200) $	16,709
Adjustments:				
Finance costs, net		**478**	896	4,029
Income taxes		**(260)**	80	12,041
Depreciation and amortization		**4,441**	4,344	3,006
EBITDA		**(5,012)**	(14,880)	35,785
Foreign exchange on long-term debt		**—**	—	4,086
Gain on investment		**—**	(286)	(643)
Adjusted EBITDA from continuing operations[3]	**$**	**(5,012)** $	(15,166) $	39,226

For the two quarters ended		July 1, 2023(2)	June 25, 2022(1)(2)
Net (loss) earnings from continuing operations	**$**	**(29,871)** $	38,000
Adjustments:			
Finance costs, net		**1,374**	7,648
Income taxes		**(180)**	15,305
Depreciation and amortization		**8,785**	5,917
EBITDA		**(19,892)**	66,870
Foreign exchange on long-term debt		**—**	2,585
Gain on investment		**(286)**	(643)
Adjusted EBITDA from continuing operations(3)	**$**	**(20,178)** $	68,812

[1]Certain prior period amounts have been restated as a result of the Company finalizing its purchase price accounting related to the Rayonier Asset Acquisition, as allowed under IFRS. Please refer to Note 4 - Acquisition of Sawmills and Paper Mill, in the Company's Annual Financial Statements for further information.
[2]Certain prior period amounts have been restated as a result of a change in presentation of the Company's Financial Statements for continuing and discontinued operations under IFRS. Please refer to Note 4 - Discontinued Operations, in the Company's Financial Statements for further information.
[3]Adjusted EBITDA is a Non-GAAP measure and does not have standardized meaning under GAAP or IFRS. As a result, it may not be comparable to information presented by other companies. For an explanation and reconciliation of Adjusted EBITDA to related comparable financial information presented in the Financial Statements prepared in accordance with IFRS, refer to the *Non-GAAP Measures* section in this MD&A.

As at July 1, 2023, the Company recorded an inventory valuation reserve from continuing operations related to log and lumber inventory of $4.3 million, which decreases the carrying value of inventory at period end. This was a decrease from the $8.7 million recorded as at December 31, 2022. This was primarily due to an increase in lumber prices seen toward the end of the current quarter.

Net Debt to Invested Capital

As at	July 1, 2023	December 31, 2022	June 25, 2022
Net debt			
Total debt[1]	**$24,542**	$53,434	$106,564
Cash and cash equivalents	**(9,803)**	(25,353)	(74,199)
Net debt	**$14,739**	$28,081	$32,365
Invested capital			
Net debt	**$14,739**	$28,081	$32,365
Shareholders' equity	**198,633**	224,462	291,591
Invested capital	**$213,372**	$252,543	$323,956
Net debt to invested capital	**6.91 %**	11.12 %	9.99 %

[1.]Total debt outstanding consists of the carrying amounts of the Company's credit facilities.

Results of Operations for the Second Quarter and Two Quarters Ended July 1, 2023

Except for the fourth quarter, the Company operates on a 13-week fiscal quarter and the second quarter of 2023 comprises the results of operations from April 2, 2023 through July 1, 2023, and reports balances as at July 1, 2023. The Company's results for the preceding first quarter of 2023 includes results of operations from January 1, 2021 through April 1, 2023. The results for the second quarter of 2022 include results of operations from March 27, 2022 through June 25, 2022.

For purposes of the following discussion on the results of operations, the Company has excluded results from its discontinued operations *(Please see Strategic Sale of Quebec Sawmills and Related Operations and Note 4 - Discontinued Operations in the Company's Financial Statements for further information).*

During the second quarter and two quarters ended July 1, 2023, the Company recorded a net loss from continuing operations of $9.7 million and $29.9 million, respectively (diluted loss per share from continuing operations of $0.05 and $0.17, respectively). During the second quarter and two quarters ended July 1, 2023, the Company recorded Adjusted EBITDA from continuing operations of negative $5.0 million and negative $20.2 million, respectively .

In the preceding first quarter of 2023, the Company recorded net loss from continuing operations of $20.2 million (diluted loss per share from continuing operations of $0.11) and Adjusted EBITDA from continuing operations of negative $15.2 million.

In the comparative second quarter and two quarters ended June 25, 2022, the Company recorded net earnings from continuing operations of $16.7 million and $38.0 million, respectively (diluted earnings per share from continuing operations of $0.09 and $0.20, respectively). For the second quarter and two quarters ended June 25, 2022, the Company recorded Adjusted EBITDA from continuing operations of $39.2 million and $68.8 million, respectively.

Second quarter of 2023 Highlights

In the second quarter of 2023, based on its continuing operations, the Company reported an operating loss of $9.5 million, including a positive contribution (net sales *less* cost of sales) of $1.8 million reflecting revenues of $111.6 million offset by cost of sales of $109.8 million. The positive contribution includes a negative $0.7 million impact from the lumber segment and a positive $2.5 million impact from the paper segment. The operating loss also includes the impact of duties expenses (of $5.6 million), selling, general & administrative expense (of $4.9 million) and other operating losses (of $0.7 million).

Net sales and shipments

Forest Products

During the second quarter ended July 1, 2023, the Company reported net sales in its Forest Products segment of $73.5 million compared to $61.3 million in the first quarter ended April 1, 2023, an increase of approximately 20%. The total volume shipped in the second quarter of 2023 was 110.3 million board feet compared to 93.3 million board feet in the first quarter of 2023. The increase in net sales was primarily driven by higher volumes shipped as a result of buyers building up inventory in response to the uncertainties caused by the historic wildfires in Canada and due to increased levels of homebuilders' confidence.

In the comparative second quarter ended June 25, 2022 the Company reported net sales in the Forest Products segment of $138.0 million, reflecting shipments of 104.7 million board feet. When compared to the second quarter of 2022, the current quarter saw a decline in net sales of approximately 47%. This was primarily driven by substantially lower lumber prices in the current period driven by the monetary tightening and sustained interest rate increases seen in recent quarters. Partially offsetting the decline was higher volume sold in the second quarter of 2023, as there were substantially fewer logistics issues in the current period.

During the two quarters ended July 1, 2023, the Company reported net sales in the Forest Products segment of $134.7 million compared to $243.0 million in the two quarters ended June 25, 2022, a decrease of 45%. The total volume shipped during these periods were 203.6 and 184.9 million board feet, respectively. The decline in net sales was primarily due to substantially lower lumber prices in the current period as a result of the reduced demand seen in recent quarters attributed to monetary tightening, partially offset by higher volumes due to fewer logistics issues in the current period.

The average weekly volume shipped during the second quarter of 2023 was 8.5 million board feet compared to 7.5 million board feet averaged in the first quarter quarter of 2023. Subsequent to Q2 2023 to date, the average weekly volume shipped is approximately 6.9 million board feet. After experiencing pandemic-related logistics disruptions and harsh winter weather in the first quarter of 2022, the Company has faced significantly fewer logistics challenges. Higher interest rates and inflation reduced demand for lumber products from the third quarter of 2022 onward. During the second quarter of 2023, US benchmark lumber prices for delivery to the Great Lakes region averaged US$463/Mfbm for random length 2&better and US$487/Mfbm for studs, compared to US$477/Mfbm and US$417/Mfbm, respectively, during the first quarter quarter of 2023.

US housing starts were reported at 1.43 million units (SAAR) in June 2023, a decrease from 1.56 million seen in June 2022. Toward the latter half of the second quarter of 2023, the Company saw market improvement and positive momentum for lumber prices partially driven by tightening of lumber supply due to mill curtailments in Western Canada and due to disruptions in forestry activities caused by forest fires. There was further positive pricing support driven by an increase in US housing starts and increased homebuilders confidence. 2x4 random length 2&better and studs are currently averaging US$539/Mfbm and $565/Mfbm, respectively, for the third quarter of 2023 thus far. With fair weather and railway issues subsided since the first half of 2022, lumber shipments are forecasted to be in line with production levels for the third quarter of 2023, pending market conditions.

Paper Products

During the second quarter ended July 1, 2023, the Company reported net sales in its Paper Products segment of $38.2 million compared to $37.8 million in the first quarter ended April 1, 2023, an increase of approximately 1%. The total volume shipped in the second quarter of 2023 was 49,111 metric tonnes (MT) compared to 42,620 MT in the first quarter of 2023. The current quarter saw increased volume, which was partially offset by lower pricing compared to the first quarter of 2023 driven by lower demand in commercial, paper and newsprint.

The second quarter ended June 25, 2022 had net sales in the Paper Products segment of $22.7 million, reflecting shipments of 26,629 MT. When compared to the second quarter of 2022, the current quarter saw an increase of approximately 68% in sales. This was primarily driven by the increased production from the restart of the second paper machine during the second half of 2022 and higher pricing.

During the two quarters ended July 1, 2023, the Company reported net sales in the Paper Products segment of $76.0 million compared to $37.4 million in the two quarters ended June 25, 2022, an increase of 103%. The total volume shipped during these periods were 91,731 MT and 46,026 MT, respectively. The increase in sales was due to higher volume reflecting increased production from the second paper machine and higher pricing in the current period.

Manufacturing and Production

Cost of sales includes labour, raw materials costs (including log costs), consumables, freight, depreciation, and energy costs.

Forest Products

During the second quarter ended July 1, 2023, the Company reported cost of sales related to Forest Products of $74.2 million compared to $70.9 million in the first quarter ended April 1, 2023, an increase of approximately 5%. This is primarily driven by higher shipments recorded in the current quarter, partially offset by a recovery related to inventory net realizable value recorded in the second quarter of 2023. During the second quarter of 2023, lumber production was 103.4 million board feet compared to 110.7 million board feet in the first quarter of 2022. This decrease in production was primarily driven by planned maintenance downtime taken in the current period. As at July 1, 2023, Company recorded an inventory valuation reserve of $4.3 million to reflect net realizable value being lower than cost for lumber and logs, which was a decrease from the $8.7 million recorded as at December 31, 2022.

The comparative second quarter ended June 25, 2022 had cost of sales related to Forest Products of $77.3 million compared to $74.2 million in the current period. Lumber production in the second quarter ended June 25, 2022 was 103.5 million board feet. The decrease in cost of sales in the current period was primarily due to better efficiencies. Additionally, during the second quarter of 2023, the Company recorded a net benefit related to inventory net realizable value, which further contributed to a decrease in cost of sales compared to the second quarter in 2022. Despite higher planned maintenance downtime in the current quarter, production remained relatively flat due to better efficiencies compared to the prior period.

During the two quarters ended July 1, 2023, the Company reported cost of sales related to Forest Products of $145.1 million compared to $131.6 million in the two quarters ended June 25, 2022, an increase of 10%. Lumber production was 214.0 and 194.1 million board feet, respectively. These increases were primarily driven by high volumes of lumber sold in the current period, partially offset by a net benefit related to inventory net realizable value recorded in the current period. Production increased due to higher efficiencies in the current period and due to an added week of operations in the current reporting period.

Entering Q3 2023, production at the sawmills is expected to be slightly higher than Q2 2023 levels due to improved efficiencies. Energy commodity prices and freight costs are expected to remain above normal, although at lower levels than the peaks seen in mid-2022.

Paper Products

During the second quarter ended July 1, 2023, the Company reported cost of sales related to Paper Products of $35.7 million compared to $36.0 million in the first quarter ended April 1, 2023, a decrease of approximately 1%. During the second quarter of 2023, paper production was 46,229 MT compared to 42,557 MT in the first quarter of 2022. Higher paper production was primarily due to further efficiencies gained on the Company's second paper machine as it continued to increase productive capacity during the current quarter.

For the comparative second quarter ended June 25, 2022, cost of sales related to Paper Products was $26.1 million compared to $35.7 million in the current period. Paper production in the second quarter ended June 25, 2022 was 27,565 MT. The increase in cost of sales in the current period was driven by the Company's restart of its second paper machine, leading to increased production in the current period. The current period saw improved unit cost as a result of the efficiency gains from the second paper machine, while the prior period cost of sales were impacted by start-up and commissioning costs related to the second paper machine but with limited incremental production from it.

During the two quarters ended July 1, 2023, the Company reported cost of sales related to Paper Products of $71.6 million compared to $46.1 million in the two quarters ended June 25, 2022, an increase of 55%. Paper production was 88,785 MT compared to 48,906 MT. This was due to the increase in production from the second paper machine at increased levels of efficiencies.

As noted, the Company restarted its second paper machine in the second quarter of 2022, which has contributed to higher production volumes in the Paper Products segment. During the second quarter of 2023, the second paper machine made further progress toward the Company's target efficiency set for it, at approximately 80%. The Company continues to work on ensuring that the target efficiency levels are consistently achieved.

Selling, General and Administration

The Company's selling, general and administrative ("SG&A") expenses primarily reflect corporate and administrative personnel costs, fees paid to consultants and external service providers, IT and infrastructure costs, public-company costs, and other shared back-office expenses.

During the second quarter ended July 1, 2023, the Company reported SG&A expenses of $4.9 million which was slightly lower compared to $5.2 million in the first quarter ended April 1, 2023. The second quarter benefited from the Company recording a recovery on a previously written-off accounts receivable balance related to its discontinued operations, which was partially offset by higher corporate development costs and higher fringe benefits in the current period.

For the second quarter and two quarters ended June 25, 2022 the Company reported SG&A expenses of $6.7 million and $12.6 million, respectively. When compared to the prior periods, the current periods saw a decrease of approximately 27% and 20%, respectively. This was primarily due to the recovery of an accounts receivable balance in the current period and lower set-up related and transitional support services costs. The decrease was partially offset by impacts of additional salaried staff and higher spend on corporate development initiatives.

Other Operating Income (Loss)

Other operating income mainly includes the impact of foreign exchange on the Company's US dollar-denominated net working capital. As the Company sells a substantial portion of its products to customers in the United Sales, those sales are denominated in US dollars.

For the second quarter and two quarters ended ended July 1, 2023, the Company reported other operating losses of $0.7 million and $0.6 million, respectively. The losses were driven by a weakening of the Canadian dollar compared to the US dollar. In the comparative period of the second quarter and two quarters ended ended June 25, 2022, the Company reported gains of $2.4 million and $1.6 million, respectively, driven by a strengthening of the Canadian dollar in the comparative periods.

Duties

The Company's softwood lumber sales to US customers are subject to countervailing and anti-dumping duties as determined by the United States Department of Commerce ("US DOC"). The Company expenses all softwood lumber duties and includes the impact in profit and loss. During the second quarter and two quarters ended July 1, 2023 the Company expensed duties of $5.6 million and $12.3 million, respectively related to its continuing operations. Until the first week of August 2023, the Company was subject to countervailing duties of 14.19% plus anti-dumping duties of 6.04%. The Company has challenged these levels by requesting that the US DOC undertake a Changed-Circumstances Review, aiming to recognize that GreenFirst's exports are a continuation of RYAM exports from same lumber mills before the acquisition, when RYAM was paying much lower combined duty rates.

On November 17, 2022 the US DOC initiated the Anti-Dumping Changed-Circumstances Review and in May 2023 has preliminarily determined that GreenFirst is the successor in interest to RYAM for the purposes of anti-dumping. US DOC continued to deny the Company's request for a Countervailing Duty Changed Circumstances Review. The Company is appealing this decision regarding Countervailing Duties. In November 2022, the US Court sided with the Company and remanded the matter to the US DOC. In February 2022, the US DOC filed its remand redetermination with the Court of International Trade, where it continued to refuse to initiate a review for the Company. In July 2023, the US Court has further remanded the US DOC remand determination back to US DOC for either further explanation or reconsideration.

The initial duty deposit rate, totaling 20.23%, had remained in effect since the Company's acquisition of its sawmill and paper mill assets and has resulted in an overpayment in relation to its Canadian peers as at July 1, 2023 of US$21 million. The Company became eligible for the rate applied to all other lumber exporters from August 1, 2023 onward, calculated by the US Department of Commerce to be 7.99%, following the results of the US DOC Administrative Review.

On July 26, 2023, the US Department of Commerce final determination of its fourth administrative reviews with respect to imports of softwood lumber products from Canada for 2021 assessed a duty lower than what the Company was assessed in 2021. Based on this final rate, calculated to be 7.99%, the Company would stand to benefit from an approximate $9.2 million recovery on duties paid, plus interest. As the US Department of Commerce determinations are subject to appeals, the timing and final amount of this refund are not known.

Duties expensed in the second quarter of 2023 decreased compared to the second quarter of 2022 mainly driven by the drop in average realized lumber prices on US shipments during the second quarter of 2023. Adjusted EBITDA before duties expensed for the second quarter and two quarters ended July 1, 2023 was positive $0.6 million and negative $7.9 million respectively, compared to positive $55.9 million and $97.6 million respectively for the second quarter and two quarters ended June 25, 2022.

Countervailing and anti-dumping duties and adjustments paid or incurred prior to the RYAM Acquisition were retained by the previous owner.

Net Finance Costs

Net finance costs primarily include interest on the Company's credit facilities, including accretion of deferred financing costs. Net finance costs also include bank charges, net interest on the Company's pension assets and liabilities and accretion expense related to lease liabilities and decommissioning obligations. During the second quarter and two quarters ended July 1, 2023 net finance costs were $0.5 million and $1.4 million, respectively.

In the prior year, for the second quarter and two quarters ended June 25, 2022, net finance costs for the Company were $4.0 million and $7.6 million, respectively, primarily related to interest on the Company's now extinguished term loan, including accretion of deferred financing costs.

Loss on Sale of Assets

On December 21, 2022, the Company signed a definitive agreement to sell its two Quebec sawmills and related forest operations to Chantiers Chibougamau. The transaction closed on March 14, 2023 for $94.1 million in gross proceeds, subject to final adjustments.

The following is the calculation of the loss on sale recorded in relation to this transaction during the first quarter ended April 1, 2023:

(in thousands of Canadian dollars)	**March 14, 2023**
Gross proceeds	94,092
Transaction-related costs	(2,553)
Net proceeds	91,539
Net assets sold	(94,995)
Loss on sale recorded in net earnings from discontinued operations	(3,456)

Selected Financial Information – Quarterly Highlights

The following table presents selected financial information related to the Company's eight most recent completed fiscal quarters (in thousands of Canadian dollars, except per share amounts and certain operating metrics):

	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Net sales from continuing operations[3]	**111,628**	99,117	100,192	111,471	160,729	119,717	114,079	19,236
Net (loss) earnings from continuing operations[1][3]	**(9,931)**	(20,200)	(25,876)	(16,257)	(16,708)	21,293	6,108	(12,045)
Net (loss) earnings from discontinued operations[1][3]	**—**	1,783	(17,739)	(7,002)	13,951	14,021	2,938	(1,077)
Basic (loss) earnings per share from continuing operations[1][3]	**(0.05)**	(0.11)	(0.10)	(0.04)	0.08	0.08	0.02	(0.01)
Basic (loss) earnings per share from discontinued operations[1][3]	**—**	0.01	(0.15)	(0.09)	0.09	0.12	0.03	(0.15)
Diluted (loss) earnings per share from continuing operations[1][3]	**(0.05)**	(0.11)	(0.10)	(0.04)	0.07	0.07	0.02	(0.01)
Diluted (loss) earnings per share from discontinued operations[1][3]	**—**	0.01	(0.15)	(0.09)	0.09	0.11	0.03	(0.15)
Operating metrics								
Lumber Sales Volume from continuing operations (MFB)[3]	**110,340**	93,294	99,714	96,536	104,704	80,151	120,926	17,942
Lumber Produced from continuing operations (MFB)[3]	**103,354**	110,662	97,195	95,683	103,494	90,596	1,110,366	21,548
Lumber - Average Selling Price (C$/MFB) from continuing operations[2][3]	**596**	605	644	800	1,277	1,258	745	605

1. Certain prior-period amounts have been restated as a result of the Company finalizing its purchase price accounting related to the Rayonier Asset Acquisition, as allowed under IFRS. Please refer to Note 4 - Acquisition of Sawmills and Paper Mill, in the Company's Annual Financial Statements for further information.
2. Average gross price before duties and other deductions.
3. Certain prior period amounts have been restated as a result of a change in presentation of the Company's Financial Statements for continuing and discontinued operations under IFRS. Please refer to Note 4 - Discontinued Operations, in the Company's Financial Statements for further information.

On a sustained basis, the Company's quarterly financial trends are impacted by typical industry-wide seasonality, levels of lumber production, log costs, market prices for lumber, the USD/CAD foreign currency exchange rate and business-development transactions.

Logging operations are seasonal due to several factors including weather and ground conditions that vary from winter freezing to spring snow melt.

Capital Resources and Liquidity

Liquidity

At July 1, 2023, the Company had total liquidity of $52.7 million comprising $9.8 million in cash on hand and $48.2 million, less $5.3 million for standby letters of credit, of excess availability under its Credit Facility. The Company has drawn down $25.0 million under the Credit Facility at July 1, 2023, and $23.0 million as of the date of this MD&A.

Cash flow for the second quarter and two quarters ended July 1, 2023

During the second quarter and two quarters ended July 1, 2023 the Company decreased its cash balance by $15.1 million and $15.6 million, respectively, and ended the quarter at a balance of $9.8 million (December 31, 2022 - $25.4 million).

Cash Provided by Operations

During the two quarters ended July 1, 2023, the Company used cash in operations of $67.3 million, reflecting the loss from operations during the period, net investments in working capital, interest paid and non-cash adjustments to net loss.

Non-cash working capital changes for the two quarters ended July 1, 2023 include a $11.7 million cash use for increased inventory. The first quarter of the fiscal year generally consists of seasonal logging activity, which requires heavy investment in log inventories on behalf of the Company. These are subsequently drawn down over the course of the fiscal year. The Company used $25.1 million in cash to repay its accounts payable, accrued liabilities and other items. These were partially offset by cash inflows of $4.3 million from collection of accounts receivable, reflecting normal variations in trade balances relating to operations.

Cash Used in Investing Activities

During the two quarters ended July 1, 2023 the Company generated $81.5 million from investing activities. This primarily reflects $94.1 million in proceeds from the sale of assets related to the Company's Quebec operations, partly offset by $10.1 million used for the purchase of property, plant and equipment and $2.6 million in transaction costs related to the sale of the Quebec assets. The Company continues to face inflationary cost pressures related to its capital expenditures program, impacting the cost and availability of equipment. The Company continues to assess the impact of these macro changes on its initial strategic capital expenditure plan and expects the actual expenditures and time frame for deployment to be greater and later than initial estimates. The execution of this plan will depend on realizing sufficient cash flows from operations and cash proceeds from the sale of non-core assets.

Cash Used in Financing Activities

During the two quarters ended July 1, 2023 the Company used $29.7 million in cash for financing related activities. This included total repayments made under its Credit Facility of $64.0 million, which included a full repayment of the term loan portion of the Credit Facility. This was partly offset by draw downs of $35.0 million during the quarter. Additionally, the Company made payments of $0.7 million related to its lease obligations during the two quarters ended July 1, 2023.

Capital Resources

The Company's objectives when managing capital are to maintain a strong financial position, to continuously improve its cost structure, to maintain liquidity throughout commodity price cycles, to support access to additional capital for expansion and to ensure compliance with existing debt agreements. The Company defines capital as the sum of net debt and shareholder's equity.

As at		**July 1, 2023**
Total debt outstanding[1]	$	24,542
Less: cash and cash equivalents		(9,803)
Net debt		14,739
Shareholders' equity		198,633
Total capital	**$**	**213,372**

[1.] Total debt outstanding consists of the carrying amounts of the Company's credit facilities.

The Company manages its capital through detailed operating and capital expenditure budgeting combined with frequent forecasting. The Company's strategic capital expenditure decisions are predicated on adequate cash flow from operations and through sale of non-core assets to support those expenditures.

The Company's Credit Facility contains restrictive covenants that limit the Company's ability to undertake certain actions without the lender's consent, and it also includes the following financial covenant test performed quarterly: a maximum annual capital expenditure amount relative to budget, as defined in the Credit Agreement. The Company monitors its performance monthly as well as its future performance expectations, adjusting as required, so it remains in compliance with the covenants. The Company was in compliance with its covenants under the Credit Agreement as at July 1, 2023.

As at July 1, 2023, the Company also has approximately $134.6 million and $11.6 million in non-capital and capital loss carryforwards, respectively, available to offset taxable income and capital gains.

Shareholders' Equity

For the two quarters ended July 1, 2023, shareholders' equity decreased by $25.8 million, compared to December 31, 2022, primarily reflecting the net loss realized during the quarter.

Credit Facility

On September 23, 2022, the Company extinguished its US$100.0 million (CAD$126.1 million at initial closing) senior secured term credit facility (the "Term Loan" or term debt) with a term of four years. The balance outstanding at the time of extinguishment was US$87.3 million (CAD$118.7 million). In addition, the Company extinguished its $65.0 million asset backed revolving loan (the "ABL") with a term of three years. Concurrently, the Company entered into a credit agreement with a Tier 1 Canadian Bank (the "Credit Agreement") for $140.0 million consisting of a term loan of $15.0 million (24-month term, with a 1-year extension available) and a revolving facility of up to $125.0 million (36-month term, with a 1-year extension available) (collectively, the "Credit Facility").

During the second quarter and two quarters ended July 1, 2023, the Company made net repayments of $10.0 million and $29.0 million, respectively, on the outstanding balance under the Credit Facility, which included the extinguishment of the term loan portion. As a result of this, the Company is no longer subject to the minimum fixed charge coverage ratio financial covenant under the Credit Facility. The Company also amended its maximum borrowing capacity under the revolving portion of the Credit Facility to $100.0 million. The Company remains subject to a maximum annual capital expenditure amount relative to budget, as these terms are defined in the Credit Agreement. The Company can draw down on the facility based on a prescribed percentage of accounts receivable and its inventory carrying value, less reserves.

As at July 1, 2023, the Company was in compliance with all covenants under the Credit Facility.

During the second quarter and two quarters ended July 1, 2023, the Company amortized deferred financing costs relating to the Credit Facility of $48 thousand and $0.1 million, respectively (June 25, 2022 - $0.8 million and $1.5 million, respectively related to the now extinguished Term Loan and ABL).

At July 1, 2023, there were $5.3 million (June 25, 2022 - $13.8 million) of outstanding standby letters of credit issued, which reduces the amounts available to draw under the Credit Facility. Additionally, as at July 1, 2023, the Company also had $5.4 million (June 25, 2022 - nil) of outstanding standby letters of credit issued backstopped by another third party, thereby not impacting the amounts available to draw under the Credit Facility.

Contractual Obligations

The estimated cash payments (undiscounted) due in respect of contractual and legal obligations including debt principal payments and capital commitments for the one-year periods ending July 1 are summarized as follows:

	2024	2025	2026	2027	2028 and beyond	Total
Accounts payable	$ 25,502	$ —	$ —	$ —	$ —	$ 25,502
Other liabilities, excl. leases	21,685	1,580	1,580	1,580	5,043	31,468
Lease liabilities	812	355	173	176	207	1,723
Long term debt	—	—	25,000	—	—	25,000
Total	**$ 47,999**	**$ 1,935**	**$ 26,753**	**$ 1,756**	**$ 5,250**	**$ 83,693**

Under the Company's Credit Facility, additional principal repayments will be required of up to 50% of excess working capital (as defined in the respective credit agreement) annually.

Pension Plans and Other Post-Retirement Benefits

As at July 1, 2023, the Company had net assets related to pension plans in asset positions of $16.6 million (December 31, 2022 - $15.4 million), and had recorded $7.4 million (December 31, 2022 - $7.6 million) of liabilities related to post-retirement obligations and pension plans in liability positions.

During the second quarter and two quarters ended July 1, 2023, the Company recorded a $0.7 million and $1.4 million remeasurement loss and gain, net of tax respectively, (June 25, 2022 - net loss of $1.2 million and $1.3) related to its pension plans and post-retirement obligations in other comprehensive loss.

Off Balance Sheet Arrangements

As of July 1, 2023, the Company had $5.3 million of outstanding letters of credit that are backed by a reserve against the revolving portion of the Company's Credit Facility, reducing maximum availability for borrowing. Additionally, the Company had a further $5.4 million of outstanding letters of credit backstopped by another third party, thus not impacting the amounts available under the Company's Credit Facility.

The Company also had surety bonds totaling $4.2 million and US$5.5 million outstanding as of July 1, 2023. These bonds are in support of the Company's obligations to the Ontario Ministry of the Environment for access to certain waste disposal sites, The Quebec Bureau de Mise en Marche Des Bois ("BMMB") in relation to timber cutting rights and the US Department of Commerce for countervailing and anti-dumping duties.

Related Party Transactions

Investment in Boreal Carbon Corporation

On November 30, 2021, the Company purchased 1,428,571 common shares in Boreal Carbon Corporation ("Boreal") for $0.5 million. Boreal is an entity focused on acquiring and managing forestry projects in North America to generate carbon credits. The Chairman and a director of GreenFirst are members of the Boreal board. See *Note 12 – Financial Instruments and Risk Management.*

During the second quarter and two quarters ended July 1, 2023 the Company recorded a gain on investment of $nil (June 25, 2022 - $0.6 million) and $0.3 million (June 25, 2022 - $0.6 million), respectively. The increase in the investment carrying value during the two quarters ended July 1, 2023 to $1.4 million (June 25, 2022 - $1.1 million) was due to a fair value adjustment supported by a revaluation of Boreal's common share price based on the pricing in an equity financing by Boreal. This investment is accounted for at fair value with changes in fair value recorded in earnings (loss).

Management Services Agreements

Certain directors of the Company, or their related parties, hold positions in other companies that result in them having control or significant influence over these companies. Some of these companies transacted with the Company during the periods noted below. Following are the aggregate values of such transactions (amounts are in thousands of dollars):

For the second quarter ended	**July 1, 2023(1)(3)**	June 25, 2022(2)
Fees incurred for services – officers and companies controlled by officers	**1,027**	—

For the two quarters ended	**July 1, 2023**[(1)(3)]	June 25, 2022[(2)]
Fees incurred for services – officers and companies controlled by officers	**1,933**	60

(1) Includes fees for management services, administrative support, and reimbursement of expenses. These fees were paid to entities controlled by or affiliated with a director of the Company. $757 of this was recorded as transaction costs as part of "Loss from Sale of Assets" during the first quarter ended April 1, 2023.
(2) Includes fees paid to an entity controlled by the Company's former CFO pursuant to a consulting contract.
(3) There are no amounts outstanding related to these services as at July 1, 2023 ($nil outstanding as at December 31, 2021).

Risks and Uncertainties

There are certain risks inherent in an investment in securities and activities of the Company, which investors should carefully consider before investing in the Company. A comprehensive list of risks and uncertainties to which the Company is exposed can be found in our Annual Information Form dated March 14, 2023 available at www.sedar.com.

Use of Estimates and Judgments

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses and disclosures at the date of the Financial Statements. It also requires management to exercise judgment in the process of applying accounting policies. Significant areas requiring estimation and judgment include: assessing the net realizable value of inventory based on estimated selling prices, costs of completion, applicable duties, transportation costs and disposal costs; estimated useful lives of property, plant and equipment; recoverability of long-lived assets; decommissioning obligations; and employee future benefits. Actual amounts could differ materially from these and other estimates, the impact of which would be recorded in future periods.

Financial Instruments and Risk Management

The fair value of the Company's financial instruments approximates the carrying value due to their short-term nature. Long term debt is recorded at amortized cost based on the amount at initial recognition, less principal payments, plus cumulative amortization using the effective interest rate method of the difference between initial amount and the maturity amount. The Company uses Level 3 inputs to assess the fair value of the investment in Boreal at the reporting date as there is no public information available regarding the value of Boreal's common shares.

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled, or expires.

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

The Company's financial instruments expose the Company to credit, liquidity, and market risk.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from the Company's cash deposits and receivables from customers.

The Company's maximum exposure to credit risk attributable to cash deposits as at July 1, 2023 is $9.8 million (December 31, 2022 - $25.4 million). The Company holds these deposits with a Canadian Schedule 1 financial institution.

The Company's exposure to credit risk with respect to accounts receivable is dependent upon individual characteristics of each customer. Each new customer is assessed for creditworthiness before payment and delivery terms and conditions are offered, with such review encompassing any external ratings, and bank and other references. Purchase limits are established for each customer and are regularly reviewed. The Company does not require specific credit guarantees for its customers and mitigates the risk of potential losses through the active monitoring of its receivables, considering past experience with its customer base, current economic conditions and any known specific customer issues.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for expected credit losses based on its best estimate of expected credit losses. At July 1, 2023, a $0.5 million (December 31, 2022 - $1.5 million) allowance for expected credit losses was recorded.

The carrying amount of accounts receivable, excluding value added tax of $33.6 million represents the maximum credit exposure for its accounts receivables at July 1, 2023 (December 31, 2022 - $34.1 million).

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity to fulfill its obligations when due and monitors cash flow requirements daily and projections weekly. In addition to the Company's cash and cash equivalent balances, it has $48.2 million, less $5.3 million for standby letters of credit, of excess availability under the revolving portion of the Credit Facility as at July 1, 2023. The Company can draw down on the facility based on a prescribed percentage of accounts receivable and its inventory carrying value, less reserves. The facility matures on September 23, 2025. The Company had drawn down $25.0 million on the revolving portion of the Credit Facility at July 1, 2023 (December 31, 2022 – $39.0 million on the revolving portion of the Credit Facility and $15.0 million on the term loan portion). Additionally, the Company had open letters of credit of $5.3 million (December 31, 2022 - $13.9 million) backed by the Credit Facility, which reduces availability by the same amount.

Market Risk

The Company is exposed to market risk primarily through changes in commodity prices, the US dollar to Canadian dollar exchange rate and interest rates.

Commodity Prices

The Company's products are commodities that are widely available from other producers; because these products have few distinguishing qualities from producer to producer, competition is based primarily on price, which is determined by supply relative to demand. The Company attempts to minimize the economic impact of these changes through continuously looking for cost reductions in its operations and employing flexible manufacturing schedules that can increase or decrease in response to supply and demand fluctuations. The Company currently does not hedge its exposure to commodity prices.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has borrowings under its Credit Facility which creates interest rate risk exposure for the Company. The revolving portion of the Credit Facility bears a variable rate of CDOR or Canadian Prime Rate plus a premium, currently at 6.78% annualized at July 1, 2023.

A 100 basis point increase in the interest rate on the secured term debt loan would decrease the net earnings in the statement of profit and loss by approximately $0.3 million on an annual basis. Similarly, a

100 basis point reduction in the interest rate on the secured term debt loan would increase the net earnings (loss) by approximately $0.3 million on an annual basis.

Currency Risk

The Company is exposed to foreign exchange risk on revenues and expenditures denominated in foreign currencies, principally US dollars. The Company's US dollar denominated sales accounts for a significant volume of its sales. Except for duties, the majority of the Company's expenditures are in Canadian dollars.

The Company is exposed to currency risk on US dollar cash and cash equivalents, accounts receivable and accounts payable balances.

As at July 1, 2023, the portion of the Company's monetary assets and liabilities held in US dollars are as follows:

As at (in thousands of US dollars)		**July 1, 2023**
Cash and cash equivalents	$	1,674
Accounts receivable		13,302
Accounts payable and other liabilities		(2,845)
Net monetary assets in US Dollars	**$**	**12,131**

Based on the US dollar statement of financial position exposure at July 1, 2023, with other variables unchanged, if the Canadian dollar were to weaken against the US dollar by 1%, relative to the rate at July 1, 2023, the net earnings in the statement of earnings (loss) would be approximately $0.2 million greater. If the Canadian dollar were to strengthen against the US dollar by 1%, relative to the rate at July 1, 2023, the net earnings in the statement of earnings (loss) would be approximately $0.2 million less.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

The Company's Chief Executive Officer and Chief Financial Officer are responsible for the establishment and maintenance of internal controls over financial reporting including disclosure controls and procedures. The Company has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external reporting purposes in accordance with IFRS.

Management has evaluated the design and effectiveness of the Company's internal controls over financial reporting as of December 31, 2022 through inquiry, review and testing. Management has used The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework (2013) to evaluate the effectiveness of the Company's internal controls over financial reporting as of December 31, 2022. Based on this evaluation, Management has concluded that as at December 31, 2022, the Company's internal controls and disclosure controls and procedures over financial reporting were effective.

There have been no changes to the design of internal controls over financial reporting that occurred during the second quarter and two quarters ended July 1, 2023 which have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

Share Data

As of the date of this MD&A the Company has: 177,572,272 common shares outstanding; 16,060,118 warrants to purchase common shares at prices ranging from $0.25 to $3.18 with expiry dates ranging from October 22, 2025 to July 30, 2026; and 6,975,767 stock options to purchase common shares at prices ranging from $1.50 to $1.92 with expiry dates ranging from January 2, 2024 to January 2, 2028.