

SUPPLEMENTAL INFORMATION ON NON-IFRS MEASURES

SPECIFIC ITEMS

The Corporation incurs some specific items that adversely or positively affect its operating results. We believe it is useful for readers to be aware of these items as they provide additional information to measure performance, compare the Corporation's results between periods, and assess operating results and liquidity, notwithstanding these specific items. Management believes these specific items are not necessarily reflective of the Corporation's underlying business operations in measuring and comparing its performance and analyzing future trends. Our definition of specific items may differ from those of other corporations, and some of them may arise in the future and may reduce the Corporation's available cash.

They include, but are not limited to, charges for (reversals of) impairment of assets, restructuring gains or costs, loss on refinancing and repurchase of long-term debt, some deferred tax asset provisions or reversals, premiums paid on long-term debt refinancing, gains or losses on the acquisition or sale of a business unit, gains or losses on the share of results of associates and joint ventures, unrealized gains or losses on derivative financial instruments that do not qualify for hedge accounting, unrealized gains or losses on interest rate swaps, foreign exchange gains or losses on long-term debt and financial instruments, specific items of discontinued operations and other significant items of an unusual, non-cash or non-recurring nature.

SPECIFIC ITEMS INCLUDED IN OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND NET EARNINGS

The Corporation incurred the following specific items during the first halves of 2020 and 2019:

LOSS (GAIN) ON ACQUISITIONS, DISPOSALS AND OTHERS

2020

In the second quarter, the Specialty Products segment recorded a \$4 million environmental provisions related to plants in Canada that were closed in the past years. The segment also recorded a \$3 million gain on the sale of a non-core equity investment.

In the first quarter, the Specialty Products segment recorded a \$1 million environmental provision related to a plant in Canada that was closed in prior year.

2019

In the second quarter, a \$4 million increase in an environmental provision was recorded in Corporate Activities related to a plant closed in a previous year.

In the second quarter, the Corporate Activities incurred \$4 million of transaction fees related to the Orchids' acquisition (please refer to "Business Highlights" section and Note 4 of the Unaudited Condensed Interim Consolidated Financial Statements of the second quarter of 2020 for more details).

In the second quarter, a \$5 million gain was recorded in Corporate Activities related to a litigation settlement from a prior-year event.

In the first quarter, the lease on the Bear Island facility in Virginia was terminated by the lessee. As such, the Containerboard segment recorded a gain of \$10 million following the reversal of liabilities related to lease incentives to the lessee and to accrued carrying costs.

IMPAIRMENT CHARGES AND RESTRUCTURING COSTS

2020

In the second quarter, the Containerboard and Tissue segments recorded impairment charges totalling \$13 million and restructuring charges totalling \$2 million as part of network optimization and profitability improvement initiatives.

2019

As a result of the lease termination on the Bear Island facility, described above, the Containerboard segment recorded a \$3 million impairment charge, in the first quarter, on some assets that will not be used in the future.

In the first quarter, the Specialty Products segment recorded \$1 million of restructuring costs stemming from the closure of its Trois-Rivières, Québec, plant that manufactured felt backing for flooring.

In the first half, the Tissue Papers segment recorded a \$1 million impairment charge on some equipment, in addition to \$5 million of restructuring costs related to the closure of two tissue paper machines in Ontario and changes in the segment's senior management.

DERIVATIVE FINANCIAL INSTRUMENTS

In the first half of 2020, the Corporation recorded a net cumulative impact of nil (unrealized loss of \$1 million in the second quarter), compared to an unrealized gain of \$5 million (unrealized gain of \$2 million in the second quarter) in the same period of 2019, on certain derivative financial instruments not designated for hedge accounting.

INTEREST RATE SWAPS AND OPTION FAIR VALUE REVALUATION

In the first half of 2019, the Corporation recorded in line item "Interest expense on employee future benefits and other liabilities" an unrealized gain of \$6 million (\$6 million in the second quarter) on the fair value revaluation of a one-time option granted to White Birch to purchase an interest of up to 10% in the Bear Island containerboard mill project.

FOREIGN EXCHANGE LOSS (GAIN) ON LONG-TERM DEBT AND FINANCIAL INSTRUMENTS

In the first half of 2020, the Corporation recorded a loss of \$8 million (gain of \$9 million in the second quarter) on its US\$-denominated debt and related financial instruments, compared to a gain of \$7 million (gain of \$1 million in the second quarter) in the same period of 2019. This is composed of a loss of \$3 million in the first half of 2020 (gain of \$3 million in the second quarter), compared to a gain of \$3 million in the same period of 2019 (nil in the second quarter), on our US\$-denominated long-term debt, net of our net investment hedges in the US and Europe as well as forward exchange contracts designated as hedging instruments. It also includes a loss of \$5 million in the first half of 2020 (gain of \$6 million in the second quarter), compared to a gain of \$4 million in the same period of 2019 (gain of \$1 million in the second quarter), on foreign exchange forward contracts not designated for hedge accounting.

RECONCILIATION OF NON-IFRS MEASURES

To provide more information for evaluating the Corporation's performance, the financial information included in this analysis contains certain data that are not performance measures under IFRS ("non-IFRS measures"), which are also calculated on an adjusted basis to exclude specific items. We believe that providing certain key performance measures and non-IFRS measures is useful to both Management and investors, as they provide additional information to measure the performance and financial position of the Corporation. This also increases the transparency and clarity of the financial information. The following non-IFRS measures are used in our financial disclosures:

- Operating income before depreciation and amortization (OIBD): Used to assess operating performance and the contribution of each segment when excluding depreciation and amortization. OIBD is widely used by investors as a measure of a corporation's ability to incur and service debt and as an evaluation metric.
- Adjusted OIBD: Used to assess operating performance and the contribution of each segment on a comparable basis.
- Adjusted operating income: Used to assess operating performance of each segment on a comparable basis.
- Adjusted net earnings: Used to assess the Corporation's consolidated financial performance on a comparable basis.
- Adjusted free cash flow: Used to assess the Corporation's capacity to generate cash flows to meet financial obligations and/or discretionary items such as share repurchase, dividend increase and strategic investments.
- Net debt to adjusted OIBD ratio: Used to measure the Corporation's credit performance and evaluate financial leverage.
- Net debt to adjusted OIBD ratio on a pro-forma basis: Used to measure the Corporation's credit performance and evaluate the financial leverage on a comparable basis, including significant business acquisitions and excluding significant business disposals, if any.

Non-IFRS measures are mainly derived from the consolidated financial statements, but do not have meanings prescribed by IFRS. These measures have limitations as an analytical tool and should not be considered on their own or as a substitute for an analysis of our results as reported under IFRS. In addition, our definitions of non-IFRS measures may differ from those of other corporations. Any such modification or reformulation may be significant.

The reconciliation of operating income (loss) to OIBD, to adjusted operating income (loss) and to adjusted OIBD by business segment is as follows:

For the 3-month period ended June 30, 2020

(in millions of Canadian dollars)	Containerboard	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Consolidated
Operating income (loss)	54	30	11	31	(32)	94
Depreciation and amortization	29	12	5	17	12	75
Operating income (loss) before depreciation and amortization	83	42	16	48	(20)	169
Specific items:						
Loss on acquisitions, disposals and others	—	—	1	—	—	1
Impairment charges	8	—	—	5	—	13
Restructuring costs	1	—	—	1	—	2
Unrealized loss (gain) on derivative financial instruments	2	1	—	—	(2)	1
	11	1	1	6	(2)	17
Adjusted operating income (loss) before depreciation and amortization	94	43	17	54	(22)	186
Adjusted operating income (loss)	65	31	12	37	(34)	111

For the 3-month period ended June 30, 2019

(in millions of Canadian dollars)	Containerboard	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Consolidated
Operating income (loss)	84	19	12	1	(34)	82
Depreciation and amortization	30	11	4	16	11	72
Operating income (loss) before depreciation and amortization	114	30	16	17	(23)	154
Specific items:						
Loss on acquisitions, disposals and others	—	—	—	—	3	3
Restructuring costs	—	—	—	1	—	1
Unrealized gain on derivative financial instruments	(1)	—	—	—	(1)	(2)
	(1)	—	—	1	2	2
Adjusted operating income (loss) before depreciation and amortization	113	30	16	18	(21)	156
Adjusted operating income (loss)	83	19	12	2	(32)	84

For the 6-month period ended June 30, 2020

(in millions of Canadian dollars)	Containerboard	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Consolidated
Operating income (loss)	128	50	19	59	(72)	184
Depreciation and amortization	57	23	8	34	24	146
Operating income (loss) before depreciation and amortization	185	73	27	93	(48)	330
Specific items:						
Loss on acquisitions, disposals and others	—	—	2	—	—	2
Impairment charges	8	—	—	5	—	13
Restructuring costs	1	—	—	1	—	2
Unrealized loss (gain) on derivative financial instruments	(1)	—	—	—	1	—
	8	—	2	6	1	17
Adjusted operating income (loss) before depreciation and amortization	193	73	29	99	(47)	347
Adjusted operating income (loss)	136	50	21	65	(71)	201

For the 6-month period ended June 30, 2019

(in millions of Canadian dollars)	Containerboard	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Consolidated
Operating income (loss)	168	37	21	(7)	(65)	154
Depreciation and amortization	57	22	8	28	24	139
Operating income (loss) before depreciation and amortization	225	59	29	21	(41)	293
Specific items:						
Loss (gain) on acquisitions, disposals and others	(10)	—	—	—	3	(7)
Impairment charges	3	—	—	1	—	4
Restructuring costs	—	—	1	5	—	6
Unrealized gain on derivative financial instruments	(1)	—	—	—	(4)	(5)
	(8)	—	1	6	(1)	(2)
Adjusted operating income (loss) before depreciation and amortization	217	59	30	27	(42)	291
Adjusted operating income (loss)	160	37	22	(1)	(66)	152

Net earnings, as per IFRS, are reconciled below with operating income, adjusted operating income and adjusted operating income before depreciation and amortization:

(in millions of Canadian dollars)	For the 3-month periods ended June 30,		For the 6-month periods ended June 30,	
	2020	2019	2020	2019
Net earnings attributable to Shareholders for the period	54	31	76	55
Net earnings attributable to non-controlling interests	12	9	23	18
Provision for income taxes	12	10	27	18
Share of results of associates and joint ventures	(3)	(2)	(6)	(4)
Foreign exchange loss (gain) on long-term debt and financial instruments	(9)	(1)	8	(7)
Financing expense and interest expense on employee future benefits and other liabilities	28	35	56	74
Operating income	94	82	184	154
Specific items:				
Loss (gain) on acquisitions, disposals and others	1	3	2	(7)
Impairment charges	13	—	13	4
Restructuring costs	2	1	2	6
Unrealized loss (gain) on derivative financial instruments	1	(2)	—	(5)
	17	2	17	(2)
Adjusted operating income	111	84	201	152
Depreciation and amortization	75	72	146	139
Adjusted operating income before depreciation and amortization	186	156	347	291

The following table reconciles net earnings and net earnings per share, as per IFRS, with adjusted net earnings and adjusted net earnings per share:

	NET EARNINGS				NET EARNINGS PER SHARE ¹			
	For the 3-month periods ended June 30,		For the 6-month periods ended June 30,		For the 3-month periods ended June 30,		For the 6-month periods ended June 30,	
	2020	2019	2020	2019	2020	2019	2020	2019
(in millions of Canadian dollars, except amount per share)								
As per IFRS	54	31	76	55	\$ 0.57	\$ 0.33	\$ 0.81	\$ 0.59
Specific items:								
Loss (gain) on acquisitions, disposals and others	1	3	2	(7)	—	\$ 0.03	\$ 0.01	(0.08)
Impairment charges	13	—	13	4	\$ 0.10	—	\$ 0.10	0.03
Restructuring costs	2	1	2	6	\$ 0.02	\$ 0.01	\$ 0.02	0.05
Unrealized loss (gain) on derivative financial instruments	1	(2)	—	(5)	\$ 0.01	\$ (0.02)	—	(0.04)
Unrealized gain on interest rate swaps and option fair value	—	(6)	—	(6)	—	\$ (0.06)	—	(0.06)
Foreign exchange loss (gain) on long-term debt and financial instruments	(9)	(1)	8	(7)	\$ (0.09)	\$ (0.01)	\$ 0.09	(0.07)
Tax effect on specific items, other tax adjustments and attributable to non-controlling interests ¹	(4)	—	(4)	(1)	—	—	—	—
	4	(5)	21	(16)	\$ 0.04	\$ (0.05)	\$ 0.22	\$ (0.17)
Adjusted	58	26	97	39	\$ 0.61	\$ 0.28	\$ 1.03	\$ 0.42

¹ Specific amounts per share are calculated on an after-tax basis and are net of the portion attributable to non-controlling interests. Per share amounts in line item "Tax effect on specific items, other tax adjustments and attributable to non-controlling interests" only include the effect of tax adjustments.

The following table reconciles cash flow from operating activities with operating income and operating income before depreciation and amortization:

	For the 3-month periods ended June 30,		For the 6-month periods ended June 30,	
	2020	2019	2020	2019
(in millions of Canadian dollars)				
Cash flow from operating activities	128	88	247	140
Changes in non-cash working capital components	34	36	68	66
Depreciation and amortization	(75)	(72)	(146)	(139)
Net income taxes paid (received)	7	2	(2)	2
Net financing expense paid	7	16	24	59
Gain (loss) on acquisitions, disposals and others	(1)	(3)	(2)	6
Impairment charges and restructuring costs	(15)	—	(15)	(5)
Unrealized gain (loss) on derivative financial instruments	(1)	2	—	5
Dividend received, employee future benefits and others	10	13	10	20
Operating income	94	82	184	154
Depreciation and amortization	75	72	146	139
Operating income before depreciation and amortization	169	154	330	293

The following table reconciles cash flow from operating activities with cash flow from operating activities (excluding changes in non-cash working capital components) and adjusted cash flow from operating activities. It also reconciles adjusted cash flow from operating activities to adjusted free cash flow, which is also calculated on a per share basis:

(in millions of Canadian dollars, except amount per share or as otherwise mentioned)	For the 3-month periods ended June 30,		For the 6-month periods ended June 30,	
	2020	2019	2020	2019
Cash flow from operating activities	128	88	247	140
Changes in non-cash working capital components	34	36	68	66
Cash flow from operating activities (excluding changes in non-cash working capital components)	162	124	315	206
Specific items, net of current income taxes if applicable	—	1	—	4
Adjusted cash flow from operating activities	162	125	315	210
Capital expenditures, other assets ¹ and right-of-use assets payments, net of disposals of \$2 million in first halves of both 2020 and 2019	(51)	(64)	(135)	(140)
Dividends paid to the Corporation's Shareholders and to non-controlling interests	(14)	(9)	(24)	(17)
Adjusted free cash flow	97	52	156	53
Adjusted free cash flow per share	\$ 1.02	\$ 0.56	\$ 1.65	\$ 0.57
Weighted average basic number of shares outstanding	94,459,257	93,636,771	94,354,030	93,900,400

¹ Excluding increase in investments.

The following table reconciles total debt and net debt with the ratio of net debt to adjusted operating income before depreciation and amortization (adjusted OIBD):

(in millions of Canadian dollars)	June 30, 2020	December 31, 2019
Long-term debt	1,975	2,022
Current portion of long-term debt	255	85
Bank loans and advances	9	11
Total debt	2,239	2,118
Less: Cash and cash equivalents	162	155
Net debt	2,077	1,963
Adjusted OIBD (last twelve months)	660	604
Net debt / Adjusted OIBD	3.1x	3.25x