

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 repurchase of long-term debt, 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 nine months of 2020 and 2019:

GAIN ON ACQUISITIONS, DISPOSALS AND OTHERS

2020

In the third quarter, the Containerboard Packaging segment recorded a \$5 million gain following the release of the escrow amount pertaining to the 2018 sale of a building located in Maspeth, New York, USA and sold in 2018.

In the third quarter, the Tissue Papers segment recorded a \$2 million gain from the sale of assets of a closed plant.

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 years.

2019

In the third quarter, the Containerboard packaging segment recorded a \$2 million gain from the sale of a building and piece of land of a closed plant.

In the third quarter, the Specialty Products segment concluded the sale of its France plant that converts cardboard into packaging for the paper industry and recorded a loss of \$1 million.

In the third quarter, the Tissue Papers segment recorded a \$25 million gain following the acquisition of Orchids Paper Products Company activities ("Orchids") (please refer to the "Business Highlights" section and Note 4 of the Unaudited Condensed Interim Consolidated Financial Statements of the third quarter of 2020 for more details). The Corporation also incurred, in Corporate Activities, transaction fees totaling \$8 million (\$4 million in the third quarter and \$4 million in the second quarter) related to the acquisition.

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, 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, USA, was terminated by the lessee. As such, the Containerboard packaging 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 third quarter, the Containerboard Packaging segment recorded restructuring charges totaling \$3 million following the announcement of the closure of its Etobicoke, Ontario, Canada, converting facility which is expected to permanently close no later than August 31, 2021.

In the third quarter, the Tissue Papers segment recorded an impairment charge of \$13 million on the assets of certain plants' assets as their recoverable amount was lower than the carrying amount due to the current economic situation and the current declining demand in the Away-from-Home market due to the Covid-19 pandemic.

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

2019

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

The Specialty Products segment recorded \$1 million of restructuring costs in the first quarter and a \$1 million impairment charge in the third quarter stemming from the closure of its Trois-Rivières, Québec, Canada, 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, Canada, and changes in the segment's senior management.

DERIVATIVE FINANCIAL INSTRUMENTS

In the first nine months of 2020, the Corporation recorded an unrealized gain of \$1 million (unrealized gain of \$1 million in the third quarter), compared to an unrealized gain of \$4 million (unrealized loss of \$1 million in the third quarter) in the same period of 2019, on certain derivative financial instruments not designated for hedge accounting.

LOSS ON REPURCHASE OF LONG-TERM DEBT

In 2020, the Corporation redeemed US\$200 million of its unsecured senior notes and recorded an early repurchase premium of \$4 million and wrote off \$2 million of unamortized financing costs related to these.

INTEREST RATE SWAPS AND OPTION FAIR VALUE REVALUATION

In the first nine months of 2019, the Corporation recorded in line item "Interest expense on employee future benefits and other liabilities" an unrealized loss of \$1 million (unrealized loss of \$7 million in the third quarter of 2019) 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 GAIN ON LONG-TERM DEBT AND FINANCIAL INSTRUMENTS

In the first nine months of 2020, the Corporation recorded a gain of \$3 million (gain of \$11 million in the third quarter) on its US\$-denominated debt and related financial instruments, compared to a gain of \$7 million (nil in the third quarter) in the same period of 2019. This is composed of a loss of \$1 million in the first nine months of 2020 (gain of \$2 million in the third quarter), compared to a gain of \$4 million in the same period of 2019 (gain of \$1 million in the third quarter), on our US\$-denominated long-term debt, net of our net investment hedges in the US, as well as forward exchange contracts designated as hedging instruments. It also includes a gain of \$4 million in the first nine months of 2020 (gain of \$9 million in the third quarter), compared to a gain of \$3 million in the same period of 2019 (loss of \$1 million in the third quarter), on foreign exchange forward contracts not designated for hedge accounting.

PROVISION FOR (RECOVERY OF) INCOME TAXES

The Corporation reassessed the probability of recovering unrealized capital losses following the redemption of its US\$ denominated debts, which resulted in the recognition of tax assets totalling \$3 million, of which \$2 million was recorded in results.

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 September 30, 2020						
(in millions of Canadian dollars)	Containerboard	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Consolidated
Operating income (loss)	71	19	11	3	(31)	73
Depreciation and amortization	30	12	5	22	12	81
Operating income (loss) before depreciation and amortization	101	31	16	25	(19)	154
Specific items:						
Gain on acquisitions, disposals and others	(5)	—	—	(2)	—	(7)
Impairment charges	—	—	—	13	—	13
Restructuring costs	3	—	—	—	—	3
Unrealized loss (gain) on derivative financial instruments	1	(2)	—	—	—	(1)
	(1)	(2)	—	11	—	8
Adjusted operating income (loss) before depreciation and amortization	100	29	16	36	(19)	162
Adjusted operating income (loss)	70	17	11	14	(31)	81

For the 3-month period ended September 30, 2019						
(in millions of Canadian dollars)	Containerboard	Boxboard Europe	Specialty Products	Tissue Papers ¹	Corporate Activities	Consolidated
Operating income (loss)	91	14	10	34	(41)	108
Depreciation and amortization	29	11	4	15	14	73
Operating income (loss) before depreciation and amortization	120	25	14	49	(27)	181
Specific items:						
Loss (gain) on acquisitions, disposals and others	(2)	—	1	(25)	4	(22)
Impairment charges	—	—	1	—	—	1
Unrealized loss on derivative financial instruments	—	—	—	—	1	1
	(2)	—	2	(25)	5	(20)
Adjusted operating income (loss) before depreciation and amortization	118	25	16	24	(22)	161
Adjusted operating income (loss)	89	14	12	9	(36)	88

¹ 2019 third quarter consolidated results have been adjusted to reflect retrospective adjustments of purchase price allocation. Please refer to Note 4 of the 2020 third quarter Unaudited Condensed Interim Consolidated Financial Statements for more details.

For the 9-month period ended September 30, 2020

(in millions of Canadian dollars)	Containerboard	Boxboard Europe	Specialty Products	Tissue Papers	Corporate Activities	Consolidated
Operating income (loss)	199	69	30	62	(103)	257
Depreciation and amortization	87	35	13	56	36	227
Operating income (loss) before depreciation and amortization	286	104	43	118	(67)	484
Specific items:						
Loss (gain) on acquisitions, disposals and others	(5)	—	2	(2)	—	(5)
Impairment charges	8	—	—	18	—	26
Restructuring costs	4	—	—	1	—	5
Unrealized loss (gain) on derivative financial instruments	—	(2)	—	—	1	(1)
	7	(2)	2	17	1	25
Adjusted operating income (loss) before depreciation and amortization	293	102	45	135	(66)	509
Adjusted operating income (loss)	206	67	32	79	(102)	282

For the 9-month period ended September 30, 2019

(in millions of Canadian dollars)	Containerboard	Boxboard Europe	Specialty Products	Tissue Papers ¹	Corporate Activities	Consolidated
Operating income (loss)	259	51	31	27	(106)	262
Depreciation and amortization	86	33	12	43	38	212
Operating income (loss) before depreciation and amortization	345	84	43	70	(68)	474
Specific items:						
Loss (gain) on acquisitions, disposals and others	(12)	—	1	(25)	7	(29)
Impairment charges	3	—	1	1	—	5
Restructuring costs	—	—	1	5	—	6
Unrealized gain on derivative financial instruments	(1)	—	—	—	(3)	(4)
	(10)	—	3	(19)	4	(22)
Adjusted operating income (loss) before depreciation and amortization	335	84	46	51	(64)	452
Adjusted operating income (loss)	249	51	34	8	(102)	240

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 September 30,		For the 9-month periods ended September 30,	
	2020	2019 ¹	2020	2019 ¹
Net earnings attributable to Shareholders for the period	49	43	125	98
Net earnings attributable to non-controlling interests	9	7	32	25
Provision for (recovery of) income taxes	(3)	12	24	30
Share of results of associates and joint ventures	(3)	(2)	(9)	(6)
Foreign exchange gain on long-term debt and financial instruments	(11)	—	(3)	(7)
Financing expense and interest expense on employee future benefits and other liabilities and loss on repurchase of long-term debt	32	48	88	122
Operating income	73	108	257	262
Specific items:				
Gain on acquisitions, disposals and others	(7)	(22)	(5)	(29)
Impairment charges	13	1	26	5
Restructuring costs	3	—	5	6
Unrealized loss (gain) on derivative financial instruments	(1)	1	(1)	(4)
	8	(20)	25	(22)
Adjusted operating income	81	88	282	240
Depreciation and amortization	81	73	227	212
Adjusted operating income before depreciation and amortization	162	161	509	452

¹ 2019 third quarter consolidated results have been adjusted to reflect retrospective adjustments of purchase price allocation. Please refer to Note 4 of the 2020 third quarter Unaudited Condensed Interim Consolidated Financial Statements for more details.

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 September 30,		For the 9-month periods ended September 30,		For the 3-month periods ended September 30,		For the 9-month periods ended September 30,	
	2020	2019 ²	2020	2019 ²	2020	2019 ²	2020	2019 ²
(in millions of Canadian dollars, except amount per share)								
As per IFRS	49	43	125	98	\$ 0.51	\$ 0.45	\$ 1.32	\$ 1.04
Specific items:								
Gain on acquisitions, disposals and others	(7)	(22)	(5)	(29)	\$ (0.05)	\$ (0.24)	\$ (0.04)	\$ (0.32)
Impairment charges	13	1	26	5	\$ 0.10	\$ 0.01	\$ 0.20	\$ 0.04
Restructuring costs	3	—	5	6	\$ 0.03	—	\$ 0.05	\$ 0.05
Unrealized loss (gain) on derivative financial instruments	(1)	1	(1)	(4)	—	\$ 0.01	—	\$ (0.03)
Loss on repurchase of long-term debt	6	—	6	—	\$ 0.05	—	\$ 0.05	—
Unrealized loss on interest rate swaps and option fair value	—	7	—	1	—	\$ 0.07	—	\$ 0.01
Foreign exchange gain on long-term debt and financial instruments	(11)	—	(3)	(7)	\$ (0.12)	—	\$ (0.03)	\$ (0.07)
Tax effect on specific items, other tax adjustments and attributable to non-controlling interests ¹	(4)	(2)	(8)	(3)	\$ (0.02)	—	\$ (0.02)	—
Adjusted	48	28	145	67	\$ 0.50	\$ 0.30	\$ 1.53	\$ 0.72

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. Please refer to "Provision for (recovery of) income taxes" above in this section for more details.

² 2019 third quarter consolidated results have been adjusted to reflect retrospective adjustments of purchase price allocation. Please refer to Note 4 of the 2020 third quarter Unaudited Condensed Interim Consolidated Financial Statements for more details.

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 September 30,		For the 9-month periods ended September 30,	
	2020	2019 ¹	2020	2019 ¹
	(in millions of Canadian dollars)			
Cash flow from operating activities	136	157	383	297
Changes in non-cash working capital components	(30)	(53)	38	13
Depreciation and amortization	(81)	(73)	(227)	(212)
Net income taxes paid (received)	1	12	(1)	14
Net financing expense paid	49	42	73	101
Premium paid on repurchase of long-term debt	4	—	4	—
Gain on acquisitions, disposals and others	7	26	5	32
Impairment charges and restructuring costs	(16)	(1)	(31)	(6)
Unrealized gain (loss) on derivative financial instruments	1	(1)	1	4
Dividend received, employee future benefits and others	2	(1)	12	19
Operating income	73	108	257	262
Depreciation and amortization	81	73	227	212
Operating income before depreciation and amortization	154	181	484	474

¹ 2019 third quarter consolidated results have been adjusted to reflect retrospective adjustments of purchase price allocation. Please refer to Note 4 of the 2020 third quarter Unaudited Condensed Interim Consolidated Financial Statements for more details.

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 September 30,		For the 9-month periods ended September 30,	
	2020	2019	2020	2019
Cash flow from operating activities	136	157	383	297
Changes in non-cash working capital components	(30)	(53)	38	13
Cash flow from operating activities (excluding changes in non-cash working capital components)	106	104	421	310
Specific items paid	9	4	9	8
Adjusted cash flow from operating activities	115	108	430	318
Capital expenditures, other assets ¹ and right-of-use assets payments, net of disposals of \$7 million for 3-month period (2019 — \$19 million) and \$9 million for 9-month period (2019 — \$21 million)	(60)	(58)	(195)	(198)
Dividends paid to the Corporation's Shareholders and to non-controlling interests	(11)	(12)	(35)	(29)
Adjusted free cash flow	44	38	200	91
Adjusted free cash flow per share	\$ 0.46	\$ 0.40	\$ 2.11	\$ 0.97
Weighted average basic number of shares outstanding	95,019,694	93,860,367	94,577,538	93,886,909

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)	September 30, 2020	December 31, 2019
Long-term debt	1,947	2,022
Current portion of long-term debt	253	85
Bank loans and advances	9	11
Total debt	2,209	2,118
Less: Cash and cash equivalents	227	155
Net debt	1,982	1,963
Adjusted OIBD (last twelve months)	661	604
Net debt / Adjusted OIBD	3.0x	3.25x