2023

QUARTER TWO

FINANCIAL STATEMENTS

CANFOR PULP PRODUCTS INC.

Canfor Pulp Products Inc.
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)	As at June 30, 2023	As at December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	**$ 8.6**	$ 14.7
Trade receivables	**53.8**	82.4
Other receivables	**8.4**	5.2
Income taxes recoverable	**2.5**	2.3
Inventories (Note 2)	**158.6**	183.2
Prepaid expenses and other	**22.2**	26.6
Total current assets	**254.1**	314.4
Property, plant and equipment and intangible assets	**408.9**	431.4
Right-of-use assets	**1.7**	1.8
Retirement benefit surplus (Note 4)	**0.7**	-
Other long-term assets	**6.9**	8.4
Total assets	**$ 672.3**	$ 756.0
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**$ 142.5**	$ 150.1
Operating loan (Note 3(a))	**55.0**	15.0
Current portion of lease obligations	**0.8**	0.9
Total current liabilities	**198.3**	166.0
Term debt (Note 3(b))	**-**	50.0
Retirement benefit obligations (Note 4)	**41.3**	48.4
Lease obligations	**1.8**	1.9
Other long-term provisions	**7.3**	6.9
Deferred income taxes, net	**39.4**	55.4
Total liabilities	**$ 288.1**	$ 328.6
EQUITY		
Share capital	**$ 480.8**	$ 480.8
Accumulated deficit	**(96.6)**	(53.4)
Total equity	**$ 384.2**	$ 427.4
Total liabilities and equity	**$ 672.3**	$ 756.0

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

APPROVED BY THE BOARD

"N.J. Mayr" — Director, N.J. Mayr

"The Hon. J.R. Baird" — Director, The Hon. J.R. Baird

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

(millions of Canadian dollars, except per share data, unaudited)	3 months ended June 30, **2023**	3 months ended June 30, 2022	6 months ended June 30, **2023**	6 months ended June 30, 2022
Sales	**$ 249.5**	$ 288.9	**$ 492.8**	$ 509.2
Costs and expenses				
Manufacturing and product costs	**226.0**	226.2	**428.2**	415.5
Freight and other distribution costs	**32.2**	38.0	**62.7**	68.9
Amortization	**22.6**	23.8	**47.2**	43.9
Selling and administration costs	**6.0**	7.3	**14.6**	13.3
Restructuring costs (Note 10)	**0.6**	1.7	**3.2**	1.7
	287.4	297.0	**555.9**	543.3
Operating loss	**(37.9)**	(8.1)	**(63.1)**	(34.1)
Finance expense, net	**(3.8)**	(1.6)	**(6.3)**	(2.6)
Other income, net (Note 11)	**2.9**	1.9	**5.3**	1.6
Net loss before income taxes	**(38.8)**	(7.8)	**(64.1)**	(35.1)
Income tax recovery (Note 5)	**10.4**	2.1	**16.9**	9.5
Net loss	**$ (28.4)**	$ (5.7)	**$ (47.2)**	$ (25.6)
Net loss per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 6)	**$ (0.44)**	$ (0.09)	**$ (0.72)**	$ (0.39)

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

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

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2023**	3 months ended June 30, 2022	6 months ended June 30, **2023**	6 months ended June 30, 2022
Net loss	**$ (28.4)**	$ (5.7)	**$ (47.2)**	$ (25.6)
Other comprehensive income				
Items that will not be reclassified subsequently to net loss:				
Defined benefit plan actuarial gains, net (Note 4)	**2.8**	11.0	**5.5**	20.8
Income tax expense on defined benefit plan actuarial gains, net (Note 5)	**(0.8)**	(2.9)	**(1.5)**	(5.6)
Other comprehensive income, net of tax	**2.0**	8.1	**4.0**	15.2
Total comprehensive income (loss)	**$ (26.4)**	$ 2.4	**$ (43.2)**	$ (10.4)

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2023**	3 months ended June 30, 2022	6 months ended June 30, **2023**	6 months ended June 30, 2022
Share capital				
Balance at beginning and end of period	**$ 480.8**	$ 480.8	**$ 480.8**	$ 480.8
Retained earnings (accumulated deficit)				
Balance at beginning of period	**$ (70.2)**	$ 1.4	**$ (53.4)**	$ 14.2
Net loss	**(28.4)**	(5.7)	**(47.2)**	(25.6)
Defined benefit plan actuarial gains, net of tax	**2.0**	8.1	**4.0**	15.2
Balance at end of period	**$ (96.6)**	$ 3.8	**$ (96.6)**	$ 3.8
Total equity	**$ 384.2**	$ 484.6	**$ 384.2**	$ 484.6

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

Canfor Pulp Products Inc.
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2023**	2022	6 months ended June 30, **2023**	2022
Cash generated from (used in):				
Operating activities				
Net loss	**$ (28.4)**	$ (5.7)	**$ (47.2)**	$ (25.6)
Items not affecting cash:				
Amortization	**22.6**	23.8	**47.2**	43.9
Income tax recovery (Note 5)	**(10.4)**	(2.1)	**(16.9)**	(9.5)
Employee future benefits expense	**0.4**	0.8	**1.0**	1.6
Finance expense, net	**3.8**	1.6	**6.3**	2.6
Restructuring costs (Note 10)	**0.6**	1.7	**3.2**	1.7
Other, net	**0.3**	(0.8)	**1.1**	(0.6)
Defined benefit plan contributions, net	**(3.3)**	(0.7)	**(4.2)**	(1.7)
Income taxes received (paid), net	**0.1**	(1.0)	**(0.7)**	(3.2)
	(14.3)	17.6	**(10.2)**	9.2
Net change in non-cash working capital (Note 7)	**41.5**	16.3	**41.7**	(15.3)
	27.2	33.9	**31.5**	(6.1)
Financing activities				
Operating loan drawings, net (Note 3(a))	**45.0**	-	**40.0**	-
Conversion of term debt (Note 3(a))	**(50.0)**	-	**(50.0)**	-
Payment of lease obligations	**(0.2)**	(0.2)	**(0.4)**	(0.4)
Finance expenses paid	**(3.4)**	(1.1)	**(5.4)**	(1.7)
	(8.6)	(1.3)	**(15.8)**	(2.1)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(10.3)**	(37.7)	**(22.3)**	(56.1)
Other, net	**0.3**	-	**0.5**	0.1
	(10.0)	(37.7)	**(21.8)**	(56.0)
Increase (decrease) in cash and cash equivalents*	**8.6**	(5.1)	**(6.1)**	(64.2)
Cash and cash equivalents at beginning of period*	**-**	14.2	**14.7**	73.3
Cash and cash equivalents at end of period*	**$ 8.6**	$ 9.1	**$ 8.6**	$ 9.1

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Pulp Products Inc. and its subsidiary entities, hereinafter referred to as "CPPI" or "the Company." At June 30, 2023 and July 27, 2023, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI.

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2022, available at www.canfor.com or www.sedar.com.

These financial statements were authorized for issue by the Company's Board of Directors on July 27, 2023.

2. Inventories

(millions of Canadian dollars, unaudited)		**As at June 30, 2023**		As at December 31, 2022
Pulp	**$**	**61.6**	$	66.6
Paper		**25.6**		29.6
Wood chips and logs		**15.1**		27.5
Materials and supplies		**56.3**		59.5
	$	**158.6**	$	183.2

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended June 30, 2023, a $6.9 million net inventory write-down expense was recognized (six months ended June 30, 2023 – $10.5 million net write-down expense). For the three months ended June 30, 2022, a $0.5 million inventory write-down expense was recognized (six months ended June 30, 2022 – $0.6 million net write-down recovery). At June 30, 2023, a provision for finished pulp, wood chips and logs of $12.9 million was recognized (December 31, 2022 – provision of $2.4 million related to logs).

3. Operating Loan and Term Debt

(a) Available Operating Loan

(millions of Canadian dollars, unaudited)		**As at June 30, 2023**		As at December 31, 2022
Operating loan facility	**$**	**160.0**	$	110.0
Letters of credit		**(13.0)**		(12.9)
Operating loan facility drawn down		**(55.0)**		(15.0)
Total available operating loan facility	**$**	**92.0**	$	82.1

On May 2, 2023, the Company converted its $50.0 million non-revolving term debt (Note 3(b)) into its existing $110.0 million committed operating loan facility, thereby increasing the principal amount of its existing committed operating facility to $160.0 million.

The terms of the Company's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization and is based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar floating rate, plus a margin.

The operating loan facility is repayable on May 2, 2027 and has certain financial covenants, including a maximum debt to total capitalization ratio. At June 30, 2023, the Company was fully in compliance with all covenants relating to its operating loan facility.

(b) Term Debt

On May 2, 2023, the Company secured a commitment to receive up to $80.0 million of non-revolving term debt to support the Company's continued re-investment in its facilities, specifically Northwood Northern Bleached Softwood Kraft pulp mill's ("Northwood") recovery boiler number one ("RB1"). This new non-revolving term debt has a maturity date of May 2, 2027, with interest payable at floating interest rates consistent with its operating loan facility. As at June 30, 2023, this non-revolving term debt remains undrawn.

4. Retirement Benefit Obligations

For the three months ended June 30, 2023, actuarial gains of $2.8 million (before tax) were recognized in other comprehensive income (loss) in relation to the Company's net defined benefit obligations (comprised of defined benefit plans as well as other benefit plans), principally reflecting a higher discount rate used to value the net defined benefit obligations and a higher than anticipated return on plan assets. For the six months ended June 30, 2023, actuarial gains of $5.5 million (before tax) were recognized in other comprehensive income (loss).

For the three months ended June 30, 2022, actuarial gains of $11.0 million (before tax) were recognized in other comprehensive income (loss), reflecting a higher discount rate used to value the net defined benefit obligations, offset in part by a lower than anticipated return on plan assets. For the six months ended June 30, 2022, actuarial gains of $20.8 million (before tax) were recognized in other comprehensive income (loss).

The discount rate assumptions used to estimate the changes in net retirement benefit obligations were as follows:

	Defined Benefit Pension Plans	**Other Benefit Plans**
June 30, 2023	**4.9%**	**4.9%**
March 31, 2023	4.8%	4.8%
December 31, 2022	4.8%	4.8%
June 30, 2022	5.0%	5.0%
March 31, 2022	3.8%	3.8%
December 31, 2021	3.0%	3.0%

5. Income Taxes

The components of income tax recovery are as follows:

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2023**	3 months ended June 30, 2022	6 months ended June 30, **2023**	6 months ended June 30, 2022
Current	**$ (0.5)**	-	**(0.6)**	6.4
Deferred	**10.9**	2.1	**17.5**	3.1
Income tax recovery	**$ 10.4**	$ 2.1	**$ 16.9**	$ 9.5

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2023**	3 months ended June 30, 2022	6 months ended June 30, **2023**	6 months ended June 30, 2022
Income tax recovery at statutory rate of 27.0% (2022 – 27.0%)	**$ 10.5**	2.1	**17.3**	9.5
Add:				
Entities with different income tax rates and other tax adjustments	**(0.1)**	-	**0.1**	-
Permanent difference from capital gains and losses and other non-deductible items	**-**	-	**(0.5)**	-
Income tax recovery	**$ 10.4**	$ 2.1	**$ 16.9**	$ 9.5

In addition to the amounts recorded to net loss, tax expense of $0.8 million and $1.5 million were recorded to other comprehensive income (loss) in relation to actuarial gains on the Company's defined benefit plans for the three and six months ended June 30, 2023, respectively (three and six months ended June 30, 2022 – $2.9 million and $5.6 million, respectively).

6. Earnings (Loss) Per Common Share

Basic net income (loss) per common share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period.

	3 months ended June 30,		6 months ended June 30,	
	2023	2022	**2023**	2022
Weighted average number of common shares	**65,233,559**	65,233,559	**65,233,559**	65,233,559

As at June 30, 2023 and July 27, 2023, there were 65,233,559 common shares of the Company outstanding and Canfor's ownership interest in CPPI was 54.8%.

7. Net Change in Non-Cash Working Capital

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2023**	2022	**2023**	2022
Trade and other receivables	**$ 26.3**	$ (11.5)	**$ 25.4**	$ (20.6)
Inventories	**37.8**	12.5	**18.6**	(5.2)
Prepaid expenses and other	**(0.5)**	4.7	**4.3**	1.5
Accounts payable and accrued liabilities	**(22.1)**	10.6	**(6.6)**	9.0
Net change in non-cash working capital	**$ 41.5**	$ 16.3	**$ 41.7**	$ (15.3)

8. Segment Information

The Company has two reportable segments (pulp and paper), which operate as separate business units and represent separate product lines. Sales between the pulp and paper segments are accounted for at prices that approximate fair value. These include sales of slush pulp from the pulp segment to the paper segment.

(millions of Canadian dollars, unaudited)	Pulp	Paper	Unallocated	Elimination Adjustment	Consolidated
3 months ended June 30, 2023					
Sales from contracts with customers	**$ 197.6**	**$ 51.9**	**$ -**	**$ -**	**$ 249.5**
Sales to other segments	**25.4**	**-**	**-**	**(25.4)**	**-**
Operating income (loss)	**(36.0)**	**0.7**	**(2.6)**	**-**	**(37.9)**
Amortization	**21.9**	**0.7**	**-**	**-**	**22.6**
Capital expenditures	**9.7**	**0.1**	**0.5**	**-**	**10.3**
3 months ended June 30, 2022					
Sales from contracts with customers	$ 236.7	$ 52.2	$ -	$ -	$ 288.9
Sales to other segments	30.2	-	-	(30.2)	-
Operating income (loss)	(11.1)	6.2	(3.2)	-	(8.1)
Amortization	23.3	0.5	-	-	23.8
Capital expenditures	37.1	0.1	0.5	-	37.7
6 months ended June 30, 2023					
Sales from contracts with customers	**$ 385.0**	**$ 107.8**	**$ -**	**$ -**	**$ 492.8**
Sales to other segments	**58.8**	**-**	**-**	**(58.8)**	**-**
Operating income (loss)	**(60.4)**	**4.0**	**(6.7)**	**-**	**(63.1)**
Amortization	**46.1**	**1.1**	**-**	**-**	**47.2**
Capital expenditures[1]	**21.6**	**0.2**	**0.5**	**-**	**22.3**
Total assets	**585.0**	**71.7**	**15.6**	**-**	**672.3**
6 months ended June 30, 2022					
Sales from contracts with customers	$ 413.2	$ 96.0	$ -	$ -	$ 509.2
Sales to other segments	56.3	-	-	(56.3)	-
Operating income (loss)	(40.4)	12.2	(5.9)	-	(34.1)
Amortization	42.9	1.0	-	-	43.9
Capital expenditures	54.6	0.6	0.9	-	56.1
Total assets	749.6	64.0	27.8	-	841.4

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

Geographic Information

CPPI's products are marketed worldwide, with sales made to customers in a number of different countries. In presenting information on the basis of geographical location, sales are based on the geographical location of customers.

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2023**			2022	6 months ended June 30, **2023**			2022
Sales by location of customer								
Canada	**9%**	**$ 21.8**	7%	$ 20.3	**8%**	**$ 40.7**	8%	$ 40.3
Asia	**62%**	**154.5**	64%	183.6	**59%**	**289.6**	60%	307.0
United States	**19%**	**48.7**	22%	63.3	**23%**	**114.8**	24%	121.2
Europe	**6%**	**14.5**	5%	15.2	**6%**	**28.0**	5%	26.7
Other	**4%**	**10.0**	2%	6.5	**4%**	**19.7**	3%	14.0
	100%	**$ 249.5**	100%	$ 288.9	**100%**	**$ 492.8**	100%	$ 509.2

9. Related Party Transactions

For the six months ended June 30, 2023, the Company depended on Canfor to provide approximately 63% (six months ended June 30, 2022 – 57%) of its fibre supply as well as certain key business and administrative services. As a result of these relationships, the Company considers its operations to be dependent on its ongoing relationship with Canfor. The transactions with Canfor are consistent with the transactions described in the December 31, 2022 audited consolidated financial statements of CPPI and are based on agreed-upon amounts between the parties.

The current market-based pricing under one of the Company's Fibre Supply Agreements with Canfor expired on June 30, 2021. The Company and Canfor agreed to extend the pricing agreement with terms currently under review and expected to be finalized in 2023.

Transactions and payables to Canfor include purchases of wood chips, logs, hog fuel and administrative services. These are summarized below:

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2023**	2022	6 months ended June 30, **2023**	2022
Transactions				
Purchase of wood chips and other	**$ 44.2**	$ 39.0	**$ 91.9**	$ 88.3

(millions of Canadian dollars, unaudited)	**As at June 30, 2023**	As at December 31, 2022
Balance Sheet		
Included in accounts payable and accrued liabilities	**$ 19.0**	$ 19.0

10. Restructuring Costs

In January 2023, the Company announced the decision to permanently close the pulp line at its Prince George Pulp and Paper mill. As a result, the Company recognized restructuring costs of $0.6 million and $3.2 million during the three and six months ended June 30, 2023, respectively, included in 'Restructuring costs' on the condensed consolidated statement of income (loss).

11. Other Income, Net

During the three and six months ended June 30, 2023, the Company received insurance proceeds of $3.8 million and $6.2 million, respectively, related to operational downtime experienced at Northwood in recent years, included in 'Other income, net' on the condensed consolidated statement of income (loss).