Canfor Pulp.

2024 Quarter Two – Financial statements

For the three months ended June 30, 2024.

Canfor Pulp Products Inc.

Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at June 30, 2024**		As at December 31, 2023
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**24.0**	$	21.1
Trade receivables		**48.0**		47.8
Other receivables		**7.5**		6.3
Income taxes recoverable		**-**		0.2
Inventories (Note 2)		**138.7**		165.9
Prepaid expenses and other		**6.5**		10.2
Total current assets		**224.7**		251.5
Property, plant and equipment and intangible assets		**409.9**		415.8
Right-of-use assets		**1.9**		1.7
Other long-term assets		**5.8**		6.8
Total assets	**$**	**642.3**	$	675.8
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**144.8**	$	159.7
Operating loan (Note 3(a))		**103.0**		107.0
Current portion of lease obligations		**1.0**		0.8
Total current liabilities		**248.8**		267.5
Retirement benefit obligations (Note 4)		**38.0**		39.0
Lease obligations		**1.5**		1.4
Other long-term liabilities		**8.4**		10.2
Deferred income taxes, net		**17.0**		20.6
Total liabilities	**$**	**313.7**	$	338.7
EQUITY				
Share capital	**$**	**480.8**	$	480.8
Accumulated deficit		**(152.2)**		(143.7)
Total equity	**$**	**328.6**	$	337.1
Total liabilities and equity	**$**	**642.3**	$	675.8

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, **2024**	3 months ended June 30, 2023	6 months ended June 30, **2024**	6 months ended June 30, 2023
Sales	**$ 220.0**	$ 249.5	**$ 442.3**	$ 492.8
Costs and expenses				
Manufacturing and product costs	**170.7**	226.0	**357.5**	428.2
Freight and other distribution costs	**26.0**	32.2	**53.3**	62.7
Amortization	**16.6**	22.6	**33.5**	47.2
Selling and administration costs	**6.4**	6.0	**13.4**	14.6
Restructuring costs (Note 11)	**5.9**	0.6	**5.9**	3.2
	225.6	287.4	**463.6**	555.9
Operating loss	**(5.6)**	(37.9)	**(21.3)**	(63.1)
Finance expense, net	**(3.7)**	(3.8)	**(7.9)**	(6.3)
Other income, net	**0.7**	2.9	**17.2**	5.3
Net loss before income taxes	**(8.6)**	(38.8)	**(12.0)**	(64.1)
Income tax recovery (Note 5)	**2.3**	10.4	**3.3**	16.9
Net loss	**$ (6.3)**	$ (28.4)	**$ (8.7)**	$ (47.2)
Net loss per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 6)	**$ (0.10)**	$ (0.44)	**$ (0.13)**	$ (0.72)

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, **2024**	3 months ended June 30, 2023	6 months ended June 30, **2024**	6 months ended June 30, 2023
Net loss	**$ (6.3)**	$ (28.4)	**$ (8.7)**	$ (47.2)
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to net income (loss):				
Defined benefit plan actuarial gains (losses), net (Note 4)	**(3.2)**	2.8	**0.3**	5.5
Income tax recovery (expense) on defined benefit plan actuarial gains (losses), net (Note 5)	**0.8**	(0.8)	**(0.1)**	(1.5)
Other comprehensive income (loss), net of tax	**(2.4)**	2.0	**0.2**	4.0
Total comprehensive loss	**$ (8.7)**	$ (26.4)	**$ (8.5)**	$ (43.2)

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended June 30, **2024**	3 months ended June 30, 2023	6 months ended June 30, **2024**	6 months ended June 30, 2023
Share capital				
Balance at beginning and end of period	**$ 480.8**	$ 480.8	**$ 480.8**	$ 480.8
Accumulated deficit				
Balance at beginning of period	**$ (143.5)**	$ (70.2)	**$ (143.7)**	$ (53.4)
Net loss	**(6.3)**	(28.4)	**(8.7)**	(47.2)
Other comprehensive income (loss), net of tax	**(2.4)**	2.0	**0.2**	4.0
Balance at end of period	**$ (152.2)**	$ (96.6)	**$ (152.2)**	$ (96.6)
Total equity	**$ 328.6**	$ 384.2	**$ 328.6**	$ 384.2

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, **2024**	3 months ended June 30, 2023	6 months ended June 30, **2024**	6 months ended June 30, 2023
Cash generated from (used in):				
Operating activities				
Net loss	**$ (6.3)**	$ (28.4)	**$ (8.7)**	$ (47.2)
Items not affecting cash:				
Amortization	**16.6**	22.6	**33.5**	47.2
Income tax recovery (Note 5)	**(2.3)**	(10.4)	**(3.3)**	(16.9)
Employee future benefits expense	**0.4**	0.4	**0.9**	1.0
Finance expense, net	**3.7**	3.8	**7.9**	6.3
Restructuring costs (Note 11)	**5.9**	0.6	**5.9**	3.2
Other, net	**0.4**	0.3	**1.5**	1.1
Defined benefit plan contributions	**(1.3)**	(3.3)	**(2.4)**	(4.2)
Income taxes recovered (paid), net	**-**	0.1	**(0.1)**	(0.7)
	17.1	(14.3)	**35.2**	(10.2)
Net change in non-cash working capital (Note 7)	**1.0**	41.5	**(2.1)**	41.7
	18.1	27.2	**33.1**	31.5
Financing activities				
Operating loan drawings (repayments), net (Note 3(a))	**(8.0)**	45.0	**(4.0)**	40.0
Conversion of term debt	**-**	(50.0)	**-**	(50.0)
Payments of lease obligations	**(0.1)**	(0.2)	**(0.3)**	(0.4)
Finance expenses paid	**(2.9)**	(3.4)	**(6.8)**	(5.4)
	(11.0)	(8.6)	**(11.1)**	(15.8)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(14.4)**	(10.3)	**(26.4)**	(22.3)
Proceeds from sale of Taylor pulp mill (Note 10)	**5.0**	-	**6.9**	-
Other, net	**0.2**	0.3	**0.4**	0.5
	(9.2)	(10.0)	**(19.1)**	(21.8)
Increase (decrease) in cash and cash equivalents*	**(2.1)**	8.6	**2.9**	(6.1)
Cash and cash equivalents at beginning of period*	**26.1**	-	**21.1**	14.7
Cash and cash equivalents at end of period*	**$ 24.0**	$ 8.6	**$ 24.0**	$ 8.6

*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, 2024 and July 25, 2024, Canfor Corporation ("Canfor") held a 54.8% interest in CPPI.

These financial statements do not include all of the disclosures required by IFRS Accounting 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, 2023, available at www.canfor.com or www.sedarplus.com.

These financial statements were authorized for issue by the Company's Board of Directors on July 25, 2024.

2. Inventories

(millions of Canadian dollars, unaudited)		**As at June 30, 2024**		As at December 31, 2023
Pulp	**$**	**38.8**	$	54.4
Paper		**23.8**		31.2
Wood chips and logs		**23.1**		30.6
Materials and supplies		**53.0**		49.7
	$	**138.7**	$	165.9

The above inventory balances are stated at the lower of cost and net realizable value. For the three and six months ended June 30, 2024, no inventory valuation adjustment was recognized. For the three months ended June 30, 2023, a $6.9 million inventory write-down expense was recognized (six months ended June 30, 2023 - $10.5 million write-down expense). At June 30, 2024, no inventory provision has been recognized (December 31, 2023 – no inventory provision).

3. Operating Loan and Term Debt

(*a*) *Available Operating Loan*

(millions of Canadian dollars, unaudited)		**As at June 30, 2024**		As at December 31, 2023
Operating loan facility	**$**	**160.0**	$	160.0
Letters of credit		**(7.1)**		(6.9)
Operating loan facility drawn		**(103.0)**		(107.0)
Total available operating loan facility	**$**	**49.9**	$	46.1

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, 2024, the Company was fully in compliance with all covenants relating to its operating loan facility.

(*b*) *Term Debt*

The Company's $80.0 million of non-revolving term debt is restricted for use on the continued re-investment in its facilities, specifically Northwood Northern Bleached Softwood Kraft pulp mill's ("Northwood") recovery boiler number one ("RB1").

This 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. At June 30, 2024, the Company was fully in compliance with all covenants relating to its non-revolving term debt which remains undrawn.

4. Employee Future Benefits

For the three months ended June 30, 2024, actuarial losses of $3.2 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 lower than anticipated return on plan assets, and to a lesser extent, a 0.1% decrease in the discount rate used to value the net defined benefit obligations. For the six months ended June 30, 2024, actuarial gains of $0.3 million (before tax) were recognized in other comprehensive income (loss).

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 principally reflecting a 0.1% increase in the 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).

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, 2024	**4.8%**	**4.8%**
March 31, 2024	4.9%	4.9%
December 31, 2023	4.6%	4.6%
June 30, 2023	4.9%	4.9%
March 31, 2023	4.8%	4.8%
December 31, 2022	4.8%	4.8%

5. Income Taxes

The components of the Company's income tax recovery are as follows:

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2024**	2023	**2024**	2023
Current	**$ (0.2)**	$ (0.5)	**$ (0.4)**	$ (0.6)
Deferred	**2.5**	10.9	**3.7**	17.5
Income tax recovery	**$ 2.3**	$ 10.4	**$ 3.3**	$ 16.9

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

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2024**	2023	**2024**	2023
Income tax recovery at statutory rate of 27.0% (2023 – 27.0%)	**$ 2.3**	$ 10.5	**$ 3.2**	$ 17.3
Add (deduct):				
Entities with different income tax rates and other tax adjustments	**-**	(0.1)	**0.1**	0.1
Permanent difference from capital gains and losses and other non-deductible items	**-**	-	**-**	(0.5)
Income tax recovery	**$ 2.3**	$ 10.4	**$ 3.3**	$ 16.9

In addition to the amounts recorded to net income (loss), a tax recovery of $0.8 million was recorded to other comprehensive income (loss) in relation to actuarial losses on the Company's defined benefit plans for the three months ended June 30, 2024. A tax expense of $0.1 million was recorded to other comprehensive income (loss) in relation to actuarial gains on the Company's defined benefit plans for the six months ended June 30, 2024 (three and six months ended June 30, 2023 – a tax expense of $0.8 million and $1.5 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,	
	2024	2023	**2024**	2023
Weighted average number of common shares	**65,233,559**	65,233,559	**65,233,559**	65,233,559

As at June 30, 2024 and July 25, 2024, 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)	**2024**	2023	**2024**	2023
Accounts receivable	**$ 0.3**	$ 26.3	**$ (1.2)**	$ 25.4
Inventories	**16.0**	37.8	**27.2**	18.6
Prepaid expenses and other	**1.5**	(0.5)	**3.7**	4.3
Accounts payable and accrued liabilities	**(16.8)**	(22.1)	**(31.8)**	(6.6)
Net change in non-cash working capital	**$ 1.0**	$ 41.5	**$ (2.1)**	$ 41.7

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, 2024					
Sales from contracts with customers	**$ 164.2**	**$ 55.8**	**$ -**	**$ -**	**$ 220.0**
Sales to other segments	**18.7**	**-**	**-**	**(18.7)**	**-**
Operating income (loss)	**(4.7)**	**1.9**	**(2.8)**	**-**	**(5.6)**
Amortization	**15.4**	**1.2**	**-**	**-**	**16.6**
Capital expenditures[1]	**12.5**	**1.9**	-	**-**	**14.4**
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[1]	9.9	0.1	0.3	-	10.3
6 months ended June 30, 2024					
Sales from contracts with customers	**$ 334.7**	**$ 107.6**	**$ -**	**$ -**	**$ 442.3**
Sales to other segments	**42.9**	**-**	**-**	**(42.9)**	**-**
Operating income (loss)	**(18.3)**	**3.0**	**(6.0)**	**-**	**(21.3)**
Amortization	**31.5**	**2.0**	**-**	**-**	**33.5**
Capital expenditures[1]	**23.8**	**2.6**	**-**	**-**	**26.4**
Total assets	**526.5**	**78.2**	**37.6**	**-**	**642.3**
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

[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.

	3 months ended June 30,						6 months ended June 30,					
(millions of Canadian dollars, unaudited)			**2024**			2023			**2024**			2023
Sales by location of customer												
Canada	**6%**	**$**	**13.3**	9%	$	21.8	**6%**	**$**	**27.5**	8%	$	40.7
Asia	**55%**		**120.4**	62%		154.5	**59%**		**260.3**	59%		289.6
United States	**28%**		**62.4**	19%		48.7	**25%**		**111.8**	23%		114.8
Europe	**7%**		**14.9**	6%		14.5	**6%**		**26.0**	6%		28.0
Other	**4%**		**9.0**	4%		10.0	**4%**		**16.7**	4%		19.7
	100%	**$**	**220.0**	100%	$	249.5	**100%**	**$**	**442.3**	100%	$	492.8

9. Related Party Transactions

For the six months ended June 30, 2024, the Company depended on Canfor to provide approximately 66% (six months ended June 30, 2023 – 63%) of its fibre supply as well as logs, hog fuel 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, 2023 audited annual consolidated financial statements of CPPI and are based on agreed-upon amounts between the parties.

Transactions and payables to Canfor are summarized below:

	3 months ended June 30,				6 months ended June 30,			
(millions of Canadian dollars, unaudited)		**2024**		2023		**2024**		2023
Transactions								
Purchase of wood chips, logs, hog fuel and administrative services	**$**	**35.1**	$	44.2	**$**	**81.8**	$	91.9

(millions of Canadian dollars, unaudited)		**As at June 30, 2024**		As at December 31, 2023
Balance Sheet				
Included in accounts payable and accrued liabilities	**$**	**15.0**	$	40.5

10. Sale of Taylor Pulp Mill

On February 6, 2024, the Company entered into an asset purchase agreement to sell its Taylor Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill for total proceeds of $7.0 million, less working capital adjustments. The transaction closed on March 15, 2024, with $2.0 million in proceeds, less $0.1 million in working capital adjustments, received during the three months ended March 31, 2024, and the remaining balance of $5.0 million received during the three months ended June 30, 2024.

11. Restructuring Costs

On May 9, 2024, the Company announced the decision to indefinitely curtail one production line at its Northwood Northern Bleached Softwood Kraft ("NBSK") pulp mill. As a result, the Company recognized restructuring costs of $5.9 million during the three and six months ended June 30, 2024 (three and six months ended June 30, 2023 - $0.6 million and $3.2 million, respectively, related to the closure of the pulp line at the Prince George Pulp and Paper mill).