2024

Quarter One
Interim Report

FOR THE THREE MONTHS ENDED MARCH 31, 2024

Canfor Corporation

To Our Shareholders

Canfor Corporation ("The Company" or "Canfor") reported its first quarter of 2024 results:

Overview

- Q1 2024 operating loss of $86 million; shareholder net loss of $65 million, or $0.54 per share
- Sustained pressure on global lumber markets and pricing, especially for Southern Yellow Pine ("SYP")
- Solid earnings from Europe; US South results directly impacted by weak SYP lumber pricing; Western Canadian results remained challenging despite uplift in Western Spruce/Pine/Fir lumber pricing
- Modest uptick in NBSK pulp unit sales realizations, 7% increase in pulp production quarter-over-quarter
- Continued execution of the Company's US South growth strategy with the announced agreement to acquire the El Dorado lumber manufacturing facility in Arkansas, as well as plans to optimize the Company's Alabama operational footprint
- Ongoing constraints accessing economically viable fibre in British Columbia impacting lumber and pulp operating rates in the near-term and through the balance of 2024

Financial Results

The following table summarizes selected financial information for the Company for the comparative periods:

(millions of Canadian dollars, except per share amounts)	Q1 2024	Q4 2023	Q1 2023
Sales	**$ 1,382.7**	$ 1,282.9	$ 1,385.4
Reported operating income (loss) before amortization	**$ 19.8**	$ (89.1)	$ (105.7)
Reported operating loss	**$ (85.8)**	$ (191.3)	$ (208.5)
Adjusted operating loss before amortization[1]	**$ (10.4)**	$ (130.2)	$ (43.6)
Adjusted operating loss[1]	**$ (116.0)**	$ (232.4)	$ (146.4)
Net loss[2]	**$ (64.5)**	$ (117.1)	$ (142.0)
Net loss per share, basic and diluted[2]	**$ (0.54)**	$ (0.98)	$ (1.17)
Adjusted net loss[1, 2]	**$ (52.1)**	$ (127.2)	$ (144.9)
Adjusted net loss per share, basic and diluted[1, 2]	**$ (0.44)**	$ (1.06)	$ (1.20)

[1] Adjusted results referenced throughout this news release are defined as non-IFRS financial measures. For further details, refer to the "Non-IFRS Financial Measures" section of this document.
[2] Attributable to equity shareholders of the Company.

The Company reported an operating loss of $85.8 million for the first quarter of 2024, compared to an operating loss of $191.3 million in the fourth quarter of 2023. After taking into consideration a net $30.2 million reversal of a previously recognized inventory write-down, the Company's adjusted operating loss was $116.0 million for the first quarter of 2024, compared to a similarly adjusted operating loss of $232.4 million for the fourth quarter of 2023. These results largely reflected an improvement in the lumber segment.

First Quarter Lumber Segment Highlights

For the lumber segment, the adjusted operating loss was $87.3 million for the first quarter of 2024, compared to the previous quarter's adjusted operating loss of $192.4 million. These results were primarily driven by a 12% uplift in the average North American Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr price and slightly higher market pricing in the United Kingdom ("UK"). In contrast, a challenging pricing environment for SYP combined with modestly higher unit manufacturing and product costs in that region, tempered results from the Company's US South operations in the current quarter.

North American lumber market conditions remained under pressure through most of the current quarter. Despite strong underlying fundamentals supported by low inventories of new homes and favourable demographics, prospective homebuyers remained cautious in the current period due to overarching affordability concerns. These factors, combined with weather-related disruptions early in the current quarter, led to a reduction in US residential construction activity quarter-over-quarter. Steady activity, however, in the repair and remodel sector, coupled with the impact of reduced supply stemming from fibre and market-related curtailments, most notably in Western Canada, resulted in an uptick in most North American benchmark prices in the latter part of the period.

US housing starts declined to 1,375,000 units in January as severe winter weather disrupted homebuilding activity. As conditions improved in February, housing starts posted significant gains but dropped again in March, averaging 1,415,000 units on a seasonally adjusted basis for the first quarter of 2024, down 5% from the previous quarter. This decline reflected a 1% increase in single family homes and a 20% decrease in multi-family starts, with the latter mainly driven by an accumulated surplus of multi-family homes under construction, particularly in the US South. In Canada, housing starts averaged 244,000 units on a seasonally adjusted basis in the first quarter of 2024, unchanged from the previous quarter.

Offshore lumber demand and pricing in Asia remained relatively flat quarter-over-quarter. In China, despite previously introduced government stimulus measures and a gradual draw-down of high inventory levels in the region, a depressed real estate market and general economic uncertainty continued to weigh on demand. In Japan, demand and pricing experienced some improvement in the current quarter as inventories moved towards more normalized levels and homebuilder incentives helped to ease affordability pressures.

In Europe, increased activity in the do-it-yourself sector, particularly in the UK, partially alleviated the ongoing impact of low levels of new home construction in that region. This improved demand was combined with reduced lumber supply in the region and led to a moderate improvement in the UK and overall European lumber pricing quarter-over-quarter.

Lumber Segment Outlook

Looking ahead, North American lumber market pricing is projected to experience some weakness through the second quarter of 2024, particularly for SYP. Despite an anticipated seasonal uptick in residential construction activity and the benefit of concessions offered by new home builders, demand is forecast to be challenged by ongoing affordability headwinds in the near-term, especially in the multi-family segment. Demand in the repair and remodeling sector, however, is projected to remain steady through the second quarter of 2024. On the supply side, ongoing fibre and market-related downtime, especially in Western Canada, is anticipated to continue to reduce inventories to more balanced levels.

Offshore lumber demand and pricing in Asia is projected to show some improvement in the second quarter of 2024 primarily due to the benefit of various government stimulus measures, particularly in Japan, and the ongoing reduction of lumber inventories in that region.

In Europe, lumber market pricing is forecast to improve slightly in the second quarter of 2024, as steady activity in the do-it-yourself sector and some persistent lumber supply constraints, tied in part to reduced log availability and increasing log costs in the region, are met with ongoing low levels of European residential construction activity.

In the US South, subsequent to quarter-end, in April 2024, the Company announced the decision to permanently close its Jackson, Alabama, facility at the end of the second quarter of 2024 and expand production at its Fulton, Alabama, facility through a second shift. These steps, together with the previously announced construction of a new, state-of-the art greenfield sawmill in Axis, Alabama, are anticipated to grow the Company's regional manufacturing platform by 100 million board feet of annual production capacity and consolidate operations at modern facilities that are well positioned to be competitive for the long-term.

On the acquisition front, today the Company announced that it has entered into an agreement with Resolute Forest Products Inc., an affiliate of Domtar Corporation, to purchase its El Dorado lumber manufacturing facility located in Union County, Arkansas, for US$73 million, including working capital. The facility, which is close to key end-markets, produces dimensional lumber and specialty wood products and is expected to increase Canfor's annual SYP lumber capacity by 175 million board feet after US$50 million of planned upgrades. The transaction is anticipated to close later in 2024 following the completion of customary closing conditions.

In Western Canada, there remains significant uncertainty with regards to the availability of economically viable fibre in British Columbia ("BC"). The Company continues to anticipate sustained log cost pressures and persistent constraints accessing economically viable fibre in BC for its sawmills, as well as a challenging fibre environment for CPPI's pulp mills. With these ongoing fibre-related pressures, the Company continues to evaluate its options and will adjust its operating rates in BC to align with demand and economically available timber supply in the near-term and through the balance of 2024.

First Quarter Pulp and Paper Segment Highlights

For the pulp and paper segment, the adjusted operating loss was $15.7 million for the first quarter of 2024, compared to an adjusted operating loss of $26.0 million for the fourth quarter of 2023. These results were largely driven by a modest uplift in Canfor Pulp Product Inc.'s ("CPPI") average Northern Bleached Softwood Kraft ("NBSK") sales unit pulp realizations in the current quarter combined with a 7% increase in pulp production compared to the fourth quarter of 2023.

Global softwood pulp markets remained flat through most of the current quarter, principally tied to generally subdued demand, particularly from Asia, combined with stable pulp producer inventory levels. Late in the current quarter, however, NBSK pulp prices to China, the world's largest pulp consumer, showed some upward momentum, largely driven by global pulp supply concerns, tied in part, to Finland's national transport workers' strike. As any related price changes will be realized in subsequent quarters, for the current quarter overall, average US-dollar NBSK pulp list prices to China were US$745 per tonne, broadly in line with the previous quarter.

Pulp and Paper Segment Outlook

Looking forward, global softwood kraft pulp market conditions are anticipated to strengthen somewhat through the second quarter of 2024, largely in response to global pulp supply disruptions, stemming from the transportation labour dispute in Finland, as well as pulp producer downtime.

In the second quarter of 2024, maintenance outages are scheduled at CPPI's Intercontinental ("Intercon") pulp mill and at its paper machine, which are projected to reduce NBSK market pulp production by 5,000 tonnes and reduce paper production by 5,000 tonnes.

Given the ongoing uncertainty with regards to the availability of economically viable fibre in BC, and the continued weakness in North American lumber markets, CPPI anticipates a challenging fibre supply environment for its pulp mills (both for sawmill residual chips and whole log chips), through the balance of 2024. CPPI will continue to evaluate its operating conditions and will adjust operating rates at its pulp mills to align with economically viable fibre supply, which will impact CPPI's production, shipments and cost structure. These factors could also affect CPPI's operating plan, liquidity, cash flows and the valuation of long-lived assets.

The Honourable John R. Baird
Chairman

Don B. Kayne
President and Chief Executive Officer

Non-IFRS Financial Measures

Throughout this press release, reference is made to certain non-IFRS financial measures which are used to evaluate the Company's performance but are not generally accepted under IFRS and may not be directly comparable with similarly titled measures used by other companies. The following table provides a reconciliation of these non-IFRS financial measures to figures reported in the Company's condensed consolidated interim financial statements:

(millions of Canadian dollars)	**Q1 2024**	Q4 2023	Q1 2023
Reported operating loss	**$ (85.8)**	$ (191.3)	$ (208.5)
Inventory write-down (recovery), net	**$ (30.2)**	$ (41.1)	$ 62.1
Adjusted operating loss	**$ (116.0)**	$ (232.4)	$ (146.4)
Amortization	**$ 105.6**	$ 102.2	$ 102.8
Adjusted operating loss before amortization	**$ (10.4)**	$ (130.2)	$ (43.6)

After-tax impact, net of non-controlling interests (millions of Canadian dollars)	**Q1 2024**	Q4 2023	Q1 2023
Net loss[3]	**$ (64.5)**	$ (117.1)	$ (142.0)
Foreign exchange (gain) loss on term debt	**$ 6.6**	$ (5.3)	$ (0.4)
(Gain) loss on derivative financial instruments	**$ 5.8**	$ (4.8)	$ (2.5)
Adjusted net loss[3]	**$ (52.1)**	$ (127.2)	$ (144.9)

[3] Attributable to equity shareholders of the Company.

Canfor Corporation
First Quarter 2024
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the quarter ended March 31, 2024, relative to the quarters ended December 31, 2023 and March 31, 2023, and the financial position of the Company at March 31, 2024. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended March 31, 2024 and 2023, as well as the 2023 annual MD&A and the 2023 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2023 (available at www.canfor.com). The financial information contained in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income (Loss) before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Loss before Amortization, and Adjusted Operating Loss which Canfor considers to be a relevant indicator for measuring trends in the performance of each of its operating segments and the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. Reference is also made to Adjusted Shareholder Net Income (Loss) (calculated as Shareholder Net Income (Loss) less specific items affecting comparability with prior periods – for the full calculation, see the reconciliation included in the section "Selected Quarterly Financial information") and Adjusted Shareholder Net Income (Loss) per Share (calculated as Adjusted Shareholder Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Loss before Amortization, Adjusted Operating Loss, Adjusted Shareholder Net Income (Loss), and Adjusted Shareholder Net Income (Loss) per Share are not generally accepted earnings measures and should not be considered as an alternative to Net Income (Loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, Canfor's Operating Income (Loss) before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Loss before Amortization, Adjusted Operating Loss, Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Loss before Amortization to Operating Income Loss and Adjusted Shareholder Net Loss to Net Loss reported in accordance with IFRS are included in the "Non-IFRS Financial Measures" section of this MD&A. Throughout this discussion, reference is made to the current quarter, which refers to the results for the first quarter of 2024.

Also in this interim MD&A, reference is made to net cash, net cash to total capitalization and return on invested capital ("ROIC") which the Company considers to be relevant performance indicators that are not generally accepted under IFRS. Therefore, these indicators, defined herein, may not be directly comparable with similarly titled measures used by other companies. Refer to the "Non-IFRS Financial Measures" section of this interim MD&A for further details.

Factors that could impact future operations are also discussed. These factors may be influenced by both known and unknown risks and uncertainties that could cause the actual results to be materially different from those stated in this discussion. Factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions; product selling prices; raw material and operating costs; currency exchange rates; interest rates; changes in law and public policy; the outcome of labour and trade disputes; and opportunities available to or pursued by Canfor.

All financial references are in millions of Canadian dollars unless otherwise noted. Certain comparative amounts have been reclassified to conform to current presentation. The information in this report is as at April 30, 2024.

Forward Looking Statements

Certain statements in this MD&A constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

FIRST QUARTER 2024 OVERVIEW

Overview

(millions of Canadian dollars)		Q1 2024		Q4 2023		Q1 2023
Operating loss	**$**	**(85.8)**	$	(191.3)	$	(208.5)
Inventory write-down (recovery), net	**$**	**(30.2)**	$	(41.1)	$	62.1
Adjusted operating loss	**$**	**(116.0)**	$	(232.4)	$	(146.4)
Amortization	**$**	**105.6**	$	102.2	$	102.8
Adjusted operating loss before amortization	**$**	**(10.4)**	$	(130.2)	$	(43.6)

Selected Financial Information and Statistics

(millions of Canadian dollars, except ratios)		Q1 2024		Q4 2023		Q1 2023
Operating loss by segment:						
Lumber	**$**	**(57.1)**	$	(162.2)	$	(169.7)
Pulp and Paper	**$**	**(15.7)**	$	(15.1)	$	(25.2)
Unallocated and Other	**$**	**(13.0)**	$	(14.0)	$	(13.6)
Total operating loss	**$**	**(85.8)**	$	(191.3)	$	(208.5)
Add: Amortization[1]	**$**	**105.6**	$	102.2	$	102.8
Total operating income (loss) before amortization	**$**	**19.8**	$	(89.1)	$	(105.7)
Add (deduct):						
Working capital movements	**$**	**(154.7)**	$	(18.0)	$	(122.7)
Defined benefit plan contributions	**$**	**(3.3)**	$	(2.5)	$	(3.4)
Income taxes paid, net	**$**	**(2.9)**	$	(0.5)	$	(57.2)
Adjustment to accrued duties[2]	**$**	**15.4**	$	81.5	$	19.4
Other operating cash flows, net[3]	**$**	**44.7**	$	20.2	$	43.3
Cash from operating activities	**$**	**(81.0)**	$	(8.4)	$	(226.3)
Add (deduct):						
Capital additions, net	**$**	**(103.4)**	$	(172.1)	$	(79.6)
Finance expenses paid	**$**	**(8.6)**	$	(10.5)	$	(5.6)
Proceeds from (repayments of) term debt, net	**$**	**0.2**	$	(46.0)	$	0.1
Share purchases	**$**	**(3.3)**	$	(9.5)	$	(11.1)
Foreign exchange gain (loss) on cash and cash equivalents	**$**	**(11.3)**	$	19.4	$	1.8
Other, net[3]	**$**	**(4.3)**	$	(9.9)	$	7.8
Change in cash / operating loans	**$**	**(211.7)**	$	(237.0)	$	(312.9)
ROIC – Consolidated period-to-date[4]		**(1.7)%**		(4.1)%		(4.8)%
Average exchange rate (US$ per C$1.00)[5]	**$**	**0.741**	$	0.734	$	0.740
Average exchange rate (SEK per C$1.00)[5]		**7.706**		7.819		7.726

[1] Amortization includes amortization of certain capitalized major maintenance costs.
[2] Adjusted to true-up preliminary anti-dumping duty ("ADD") deposits to the Company's current accrual rates.
[3] Further information on cash flows may be found in the Company's unaudited interim consolidated financial statements.
[4] Consolidated ROIC is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[5] Source – Bank of Canada (monthly average rate for the period).

Analysis of Specific Material Items Affecting Comparability of Shareholder Net Loss

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	Q1 2024	Q4 2023	Q1 2023
Shareholder net loss, as reported	**$ (64.5)**	$ (117.1)	$ (142.0)
Foreign exchange (gain) loss on term debt	**$ 6.6**	$ (5.3)	$ (0.4)
(Gain) loss on derivative financial instruments	**$ 5.8**	$ (4.8)	$ (2.5)
Net impact of above items	**$ 12.4**	$ (10.1)	$ (2.9)
Adjusted shareholder net loss[6]	**$ (52.1)**	$ (127.2)	$ (144.9)
Shareholder net loss per share (EPS), as reported	**$ (0.54)**	$ (0.98)	$ (1.17)
Net impact of above items per share	**$ 0.10**	$ (0.08)	$ (0.03)
Adjusted shareholder net loss per share[6]	**$ (0.44)**	$ (1.06)	$ (1.20)

[6] Adjusted shareholder net loss is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

The Company reported an operating loss of $85.8 million for the first quarter of 2024, compared to an operating loss of $191.3 million in the fourth quarter of 2023. After taking into consideration a net $30.2 million reversal of a previously recognized inventory write-down, the Company's adjusted operating loss was $116.0 million for the first quarter of 2024, compared to a similarly adjusted operating loss of $232.4 million for the fourth quarter of 2023. These results largey reflected an improvement in the lumber segment.

For the lumber segment, the adjusted operating loss was $87.3 million for the first quarter of 2024, compared to the previous quarter's adjusted operating loss of $192.4 million. These results were primarily driven by a 12% uplift in the average North American Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr price and slightly higher market pricing in the United Kingdom ("UK"). In contrast, a challenging pricing environment for Southern Yellow Pine ("SYP") combined with modestly higher unit manufacturing and product costs in that region, tempered results from the Company's US South operations in the current quarter.

For the pulp and paper segment, the adjusted operating loss was $15.7 million for the first quarter of 2024, compared to an adjusted operating loss of $26.0 million for the fourth quarter of 2023. These results were largely driven by a modest uplift in Canfor Pulp Product Inc.'s ("CPPI") average Northern Bleached Softwood Kraft ("NBSK") sales unit pulp realizations in the current quarter combined with a 7% increase in pulp production.

Compared to the first quarter of 2023, adjusted operating results were up $30.5 million from an adjusted operating loss of $146.4 million in the comparative period, primarily consisting of a $24.0 million uplift in lumber segment results combined with a $5.9 million increase in the pulp and paper segment.

Improved lumber segment results were mostly driven by the Company's Western Canadian operations, largely attributable to increased shipment volumes and significantly lower unit manufacturing and product costs in the current period. These factors were moderated in part by more modest results in the US South and Europe in the current period. Results in the US South reflected a notable decline in SYP lumber benchmark pricing quarter-over-quarter, mitigated to a degree, by increased SYP production and shipments associated with the ramp-up of the DeRidder sawmill through 2023. Compared to the same period in the prior year, results in Europe were principally reflective of lower production and shipments, and the associated impact on lumber unit manufacturing and product costs, partially offset by the benefit of higher European lumber unit sales realizations in the current quarter.

For the pulp and paper segment, notwithstanding significantly lower US-dollar NBSK pulp list prices, adjusted operating results increased $5.9 million compared to the first quarter of 2023, primarily reflecting a substantial reduction in pulp unit manufacturing costs in the current quarter following the permanent closure of the pulp line at CPPI's Prince George ("PG") Pulp and Paper mill in the prior year.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q1 2024	Q4 2023	Q1 2023
Sales[7]	**$ 1,160.4**	$ 1,089.0	$ 1,142.1
Operating income (loss) before amortization[7]	**$ 31.0**	$ (76.9)	$ (92.2)
Operating loss[7]	**$ (57.1)**	$ (162.2)	$ (169.7)
Inventory write-down (recovery)	**$ (30.2)**	$ (30.2)	$ 58.5
Adjusted operating loss[8]	**$ (87.3)**	$ (192.4)	$ (111.2)
Average Western SPF 2x4 #2&Btr lumber price in US$[9]	**$ 446**	$ 400	$ 386
Average Western SPF 2x4 #2&Btr lumber price in Cdn$[9,11]	**$ 602**	$ 545	$ 522
Average SYP 2x4 #2 lumber price in US$[10]	**$ 419**	$ 448	$ 485
Average SYP 2x4 #2 lumber price in Cdn$[10,11]	**$ 565**	$ 610	$ 655
Average SYP 2x6 #2 lumber price in US$[10]	**$ 354**	$ 333	$ 420
Average SYP 2x6 #2 lumber price in Cdn$[10,11]	**$ 478**	$ 454	$ 568
US housing starts (thousand units SAAR)[12]	**1,415**	1,485	1,385
Production – Western SPF lumber (MMfbm)[13]	**506**	503	531
Production – SYP lumber (MMfbm)[13]	**441**	438	410
Production – European lumber (MMfbm)[13]	**350**	324	373
Shipments – Western SPF lumber (MMfbm)[14]	**544**	510	497
Shipments – SYP lumber (MMfbm)[14]	**431**	434	404
Shipments – European lumber (MMfbm)[14]	**396**	389	439

[7] Q1 2024 includes sales of $370.0 million, operating income of $13.3 million, and operating income before amortization of $31.4 million from European operations (Q4 2023 – sales of $324.7 million, operating loss of $2.3 million, and operating income before amortization of $15.5 million; Q1 2023 – sales of $364.5 million, operating income of $31.2 million, and operating income before amortization of $48.3 million). Operating income from the European operations in Q1 2024 includes $9.4 million in incremental amortization and other expenses driven by the purchase price allocation at acquisition (Q4 2023 - $9.3 million; Q1 2023 - $9.3 million).
[8] Adjusted operating loss is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[9] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[10] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[11] Average lumber prices in Cdn$ calculated as average price in US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average for the period.
[12] Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").
[13] Excluding production of trim blocks.
[14] Includes Canfor produced lumber, as well as lumber purchased for resale, remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

Markets

North American lumber market conditions remained under pressure through most of the current quarter. Despite strong underlying fundamentals supported by low inventories of new homes and favourable demographics, prospective homebuyers remained cautious in the current period due to overarching affordability concerns. These factors, combined with weather-related disruptions early in the current quarter, led to a reduction in US residential construction activity quarter-over-quarter. Steady activity, however, in the repair and remodel sector, coupled with the impact of reduced supply stemming from fibre and market-related curtailments, most notably in Western Canada, resulted in an uptick in most North American benchmark prices in the latter part of the period.

US housing starts declined to 1,375,000 units in January as severe winter weather disrupted homebuilding activity. As conditions improved in February, housing starts posted significant gains but dropped again in March, averaging 1,415,000 units on a seasonally adjusted basis for the first quarter of 2024, down 5% from the previous quarter. This decline reflected a 1% increase in single family homes and a 20% decrease in multi-family starts, with the latter mainly driven by an accumulated surplus of multi-family homes under construction, particularly in the US South. In Canada, housing starts averaged 244,000 units on a seasonally adjusted basis in the first quarter of 2024, unchanged from the previous quarter.

Offshore lumber demand and pricing in Asia remained relatively flat quarter-over-quarter. In China, despite previously introduced government stimulus measures and a gradual draw-down of high inventory levels in the region, a depressed real estate market and general economic uncertainty continued to weigh on demand. In Japan, demand

and pricing experienced some improvement in the current quarter as inventories moved towards more normalized levels and homebuilder incentives helped to ease affordability pressures.

In Europe, increased activity in the do-it-yourself sector, particularly in the UK, partially alleviated the ongoing impact of low levels of new home construction in that region. This improved demand was combined with reduced lumber supply in the region and led to a moderate improvement in the UK and overall European lumber pricing quarter-over-quarter.

Sales

Sales revenues for the lumber segment for the first quarter of 2024 were $1,160.4 million, up $71.4 million compared to the previous quarter and up $18.3 million from the first quarter of 2023. The 7% increase in sales revenue over the prior quarter was largely driven by improved lumber unit sales realizations in Western Canada and Europe, combined with modestly higher shipment volumes in those regions, partially offset by lower sales revenue in the US South mostly tied to slightly lower shipments in the current quarter.

Compared to the first quarter of 2023, sales revenues increased 2%, as a significant decline in SYP lumber unit sales realizations in the current quarter were more than offset by a moderate uplift in European lumber unit sales realizations and slightly higher total lumber shipment volumes quarter-over-quarter.

Total lumber shipments, at 1.37 billion board feet, were 3% higher than the prior quarter. In Western Canada, a 7% increase in lumber shipments was largely associated with a draw-down of finished inventory in the current period following the curtailment of the Company's Polar sawmill early in 2024. A 2% uplift in European shipment volumes was principally associated with higher production in the current quarter. SYP shipments were comparable quarter-over-quarter.

Compared to the first quarter of 2023, total lumber shipments saw a 2% increase, largely reflecting a 9% uptick in Western SPF shipments associated with a reduction of finished inventories in the current quarter, coupled with a 7% increase in SYP shipments principally tied to the benefit of incremental shipment volumes associated with the ramp-up of the DeRidder sawmill in 2023. These factors were largely offset by a 10% decline in European shipments stemming from lower production, and in part, the timing of shipments in the current period.

The average North American Random Lengths Western SPF 2x4 #2&Btr price for the first quarter of 2024 of US$446 per Mfbm was up US$46 per Mfbm, or 12%, from the previous quarter, as downward pricing pressure experienced through January and early February was followed by gains through mid-March, ending the quarter at US$463 per Mfbm. The Company's Western SPF lumber unit sales realizations primarily reflected this upward trend in US-dollar Western SPF 2x4 benchmark pricing, combined with more pronounced pricing increases for wider-width products in the current period. These favourable factors were moderated, to a degree, by reduced pricing for certain low-grade products quarter-over-quarter, and a 1 cent, or 1%, stronger Canadian dollar (versus the US-dollar).

The average North American SYP East 2x6 #2 price started the quarter at US$370 per Mfbm and weakened early in the period to a low of US$325 per Mfbm, before gradually improving through the balance of the quarter to end March at US$358 per Mfbm. For the current quarter overall, the SYP East 2x6 #2 price averaged US$354 per Mfbm, up US$21 per Mfbm, or 6%, from the previous quarter, with more notable pricing increases seen for certain wider-width dimensions. In contrast, the SYP East 2x4 #2 price averaged US$419 per Mfbm in the current period, down US$29 per Mfbm, or 6%, compared to the previous quarter. As a result of these offsetting movements in SYP benchmark prices, the Company's SYP lumber unit sales realizations were broadly comparable quarter-over-quarter.

The Company's European lumber unit sales realizations were moderately higher than the previous quarter principally reflecting a slight uptick in market pricing in the UK in the current quarter, combined with a 1% weaker Canadian dollar (versus the SEK).

Compared to the first quarter of 2023, the average North American Random Lengths Western SPF 2x4 #2&Btr price increased US$60 per Mfbm, or 16%. This uplift in US-dollar benchmark pricing was more than offset by significant pricing declines for most wider-width products, which combined, led to a slight decrease in the Company's Western SPF lumber unit sales realizations quarter-over-quarter. In the US South, a significant decline in SYP lumber unit sales realizations principally reflected a US$66 per Mfbm, or 16% decrease in the average North American SYP East 2x6 #2 price, combined with a US$66 per Mfbm, or 14%, drop in the average SYP East 2x4 #2 price over the comparative period. Conversely, the Company's European unit sales realizations reflected a moderate increase from the same period in the prior year primarily tied to a slight improvement in market pricing in the UK in the current quarter.

Other revenues for the Company's lumber segment (which are primarily comprised of residual fibre, pulp log and pellets sales, as well as the Company's European operations' other related revenues) increased modestly compared to the previous quarter, largely driven by an uplift in residual fibre revenues, most notably in Europe, offset in part by lower pellet sales in both Europe and Western Canada, as well as a timing-related decrease in building-related revenue in Europe. Compared to the first quarter of 2023, other revenues experienced a significant increase principally reflecting an increase in log sales and residual fibre revenues at the Company's European operations in the current period.

Operations

Total lumber production, at 1.30 billion board feet, was up 3% from the prior quarter, largely tied to an 8% increase in European production stemming from fewer statutory holidays in the current quarter. In North America, production was broadly comparable quarter-over-quarter as the benefit of increased operating days in the current period was partially offset by slightly higher fibre and market-driven curtailments in Western Canada (approximately 145 million board feet in the current quarter, including the curtailment at the Company's Polar sawmill which commenced in January 2024, versus 140 million board feet in the prior quarter).

Compared to the first quarter of 2023, total lumber production decreased by 1%, as a 7% increase in SYP production, associated with the start-up of the Company's DeRidder sawmill in early 2023, was more than offset by reduced production in Western Canada and Europe. In Western Canada, production declined 5% principally reflecting the permanent and temporary closures of Chetwynd and Houston, respectively, in April 2023, mitigated in part by a decrease in fibre and market-related curtailments quarter-over-quarter. European production declined 6% from the same period in the prior year primarily as a result of the continued impact of intermittent log availability in that region.

Lumber unit manufacturing and product costs were broadly comparable quarter-over-quarter, as a slight uplift in overall log costs were offset by a small decline in total lumber per-unit cash conversion costs. The former primarily reflected higher log costs in Europe stemming from ongoing log supply constraints, combined with, to a lesser extent, log pricing pressure in the US South. These log cost increases were moderated, in part, by lower market-based stumpage and purchased wood costs in Western Canada in the current quarter. Reduced per-unit conversion costs principally reflected per-unit cost declines in Europe associated with the benefit of increased production and seasonally lower energy spend in that region, partially offset by some inflationary pressure on spend in the US South in the current period.

Compared to the first quarter of 2023, lumber unit manufacturing and product costs were down slightly, largely attributable to a decline in log costs. Log cost reductions were most notable in Western Canada, principally as a result of lower stumpage costs in British Columbia ("BC") quarter-over-quarter, which more than outweighed market-based log pricing increases in Europe stemming from reduced log availability in that region. Per-unit cash conversion costs were broadly in line with the comparative period as the benefit of reduced spend in Western Canada following BC mill curtailments and closures, was offset by the impact of lower European production volumes on per-unit spend in the current period.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[15]

(millions of Canadian dollars, unless otherwise noted)	Q1 2024	Q4 2023	Q1 2023
Sales	**$ 222.3**	$ 193.9	$ 243.3
Operating income (loss) before amortization[16]	**$ 1.2**	$ 1.1	$ (0.6)
Operating loss	**$ (15.7)**	$ (15.1)	$ (25.2)
Inventory write-down (recovery)	**$ -**	$ (10.9)	$ 3.6
Adjusted operating loss[17]	**$ (15.7)**	$ (26.0)	$ (21.6)
Average NBSK pulp price delivered to China – US$[18]	**$ 745**	$ 748	$ 891
Average NBSK pulp price delivered to China – Cdn$[18]	**$ 1,005**	$ 1,019	$ 1,204
Production – pulp (000 mt)	**158**	148	181
Production – paper (000 mt)	**32**	34	34
Shipments – pulp (000 mt)	**159**	136	152
Shipments – paper (000 mt)	**35**	32	35

[15] Includes 100% of Canfor Pulp Products Inc., which is consolidated in Canfor's operating results.
[16] Amortization includes amortization of certain capitalized major maintenance costs.
[17] Adjusted operating loss is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[18] Per tonne, NBSK pulp list net price delivered to China (as published by Resource Information Systems, Inc. ("RISI")); Average NBSK pulp list net price delivered to China in Cdn$ calculated as average NBSK pulp list net price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.

Markets

Global softwood pulp markets remained flat through most of the current quarter, principally tied to generally subdued demand, particularly from Asia, combined with stable pulp producer inventory levels. Late in the current quarter, however, NBSK pulp prices to China, the world's largest pulp consumer, showed some upward momentum, largely driven by global pulp supply concerns, tied in part, to Finland's national transport workers' strike. For the current quarter overall, average US-dollar NBSK pulp list prices to China were US$745 per tonne, broadly in line with the previous quarter, and down US$146 per tonne, or 16% compared to the first quarter of 2023. In other global regions, the recent pulp supply concerns and various mill closures, particularly in North America, resulted in some upward pricing momentum in that region, with the average US-dollar NBSK pulp list price to North America up US$128 per tonne, or 10% from the previous quarter, to US$1,440 per tonne (before discounts). Compared to the first quarter of 2023, however, pulp list prices to North America were down US$235 per tonne, or 14%.

Global softwood pulp producer inventories were relatively steady throughout the current quarter and within the balanced range, ending February 2024 at 39 days of supply[19], a one day decrease from December 2023. Market conditions are generally considered balanced when inventories are in the 32-43 days of supply range[19].

Global kraft paper markets remained stable through the first quarter of 2024, particularly in North America, while demand in other regions continued to strengthen in the current period following an uptick in demand experienced late in 2023.

Sales

Pulp shipments for the first quarter of 2024 totaled 159,000 tonnes, up 23,000 tonnes, or 17%, from the previous quarter, principally due to a 7% improvement in pulp production, combined with a replenishment of inventory levels in the previous quarter relating to the delayed restart of CPPI's Northwood NBSK pulp mill ("Northwood") into October following the completion of its scheduled maintenance outage. Compared to the first quarter of 2023, pulp shipments were up 7,000 tonnes, or 5%, primarily reflecting the replenishment of inventory levels in the comparative period as a result of a fibre-related curtailment at CPPI's Intercontinental ("Intercon") pulp mill late in 2022.

[19] World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council ("PPPC").

Notwithstanding broadly comparable US-dollar pulp list prices to China in the current quarter and the 1% stronger Canadian dollar (versus the US-dollar), CPPI's average NBSK pulp unit sales realizations were modestly higher than the prior quarter, largely due to an uptick in US-dollar pulp list pricing to North America, combined with a favourable timing lag in shipments (versus orders). Compared to the first quarter of 2023, however, CPPI's average NBSK pulp unit sales realizations saw a significant decline, for the most part driven by downward pressure on global US-dollar pulp list pricing quarter-over-quarter.

Energy revenues declined in the current quarter compared to the fourth quarter of 2023, principally driven by the impact of cold weather on pulp production and, therefore, power generation at the start of the year. Compared to the first quarter of 2023, energy revenues improved, as a return to more normalized pulp productivity was combined with a slight increase in power pricing quarter-over-quarter.

Paper shipments in the first quarter of 2024 were 35,000 tonnes, up 3,000 tonnes from the previous quarter, and in line with the first quarter of 2023, principally reflecting the timing of shipments around quarter-end.

Paper unit sales realizations in the first quarter of 2024 were slightly lower than the previous quarter, largely reflecting the 1% stronger Canadian dollar. Compared to the first quarter of 2023, paper unit sales realizations experienced a moderate decrease, primarily associated with weaker US-dollar paper pricing quarter-over-quarter.

Operations

Pulp production was 158,000 tonnes for the first quarter of 2024, up 10,000 tonnes, or 7%, from the fourth quarter of 2023, largely reflecting solid productivity and the benefit of reduced downtime in the current period.

In the current quarter, the operational performance at both Northwood and Intercon was challenged by extreme winter weather conditions, particularly in January, as well as other minor operational disruptions throughout the period. Combined, these factors reduced NBSK pulp production by approximately 30,000 tonnes in the current quarter. In the fourth quarter of 2023, pulp production was principally impacted by a delayed restart of Northwood into October as well as other minor reliability challenges (combined, approximately 40,000 tonnes).

Compared to the first quarter of 2023, pulp production was down 23,000 tonnes, or 13%, primarily reflecting the permanent closure of the pulp line at PG, which took effect in April 2023, offset by an increase in operating days and improved NBSK productivity at both Northwood and Intercon quarter-over-quarter. In the comparative 2023 period, pulp production was impacted by a fibre-related curtailment at CPPI's Intercon pulp mill as well as persistent reliability challenges (combined, approximately 65,000 tonnes).

Pulp unit manufacturing costs were modestly lower in the current quarter compared to the fourth quarter of 2023, as the benefit of increased production and lower maintenance spend in the current quarter more than offset higher energy costs, tied, for the most part, to the severe cold weather experienced early in January. Fibre costs were moderately lower than the previous quarter, primarily due to reduced market-based prices for sawmill residual chips (linked in part to lower Canadian dollar NBSK pulp sales realizations in the prior quarter as a result of a lag in chip consumption), moderated, to a degree, by an increase in the proportion of higher-cost whole log chips. Compared to the first quarter of 2023, pulp unit manufacturing costs were substantially lower, as market-related decreases in fibre costs, were combined with reduced energy and maintenance spend in the current period.

Paper production for the first quarter of 2024 was 32,000 tonnes, down 2,000 tonnes compared to both comparative periods, primarily due to reduced productivity as a result of minor operational challenges at CPPI's specialty paper facility in the current quarter.

Paper unit manufacturing costs were moderately higher than the fourth quarter of 2023, primarily reflecting reasonably higher slush pulp costs (associated with the uplift in Canadian dollar NBSK pulp unit sales realizations) and increased chemical costs in the current period. Paper unit manufacturing costs were broadly in line with the first quarter of 2023, as higher chemical and per-unit conversion costs were offset by reduced slush pulp costs quarter-over-quarter (tied to the decline in Canadian dollar NBSK pulp unit sales realizations).

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)	Q1 2024	Q4 2023	Q1 2023
Corporate costs	**$ (13.0)**	$ (14.0)	$ (13.6)
Finance income (expense), net	**$ (2.6)**	$ 2.7	$ 3.0
Foreign exchange gain (loss) on term debt and duty deposits recoverable, net	**$ 0.1**	$ (0.3)	$ 0.5
Gain (loss) on derivative financial instruments	**$ (10.3)**	$ 9.0	$ 3.5
Other income, net	**$ 19.2**	$ 4.6	$ 4.7

Corporate costs were $13.0 million for the first quarter of 2024, down $1.0 million from the previous quarter primarily reflecting a decrease in head office and general administrative expenses, partially offset by an increase in legal costs associated with the softwood lumber dispute in the current period. Compared to the first quarter of 2023, corporate costs were down $0.6 million as a result of higher legal costs in the comparative period.

Net finance expense of $2.6 million for the first quarter of 2024 was up $5.3 million from the previous quarter, principally due to a decrease in interest income on US-dollar short term investments quarter-over-quarter. Net finance income of $2.7 million in the fourth quarter of 2023, and $3.0 million in the first quarter of 2023, were both primarily comprised of interest income on US-dollar short term investments and, to a lesser extent, accrued interest income on recoverable duty deposits.

In the first quarter of 2024, the Company recognized a foreign exchange gain of $7.8 million on its US-dollar denominated net duty deposits recoverable at the close of the current quarter, mostly offset by a loss of $7.7 million on its US-dollar term debt held by Canadian entities, due to the weakening of the Canadian dollar at the end of the current quarter compared to the end of December 2023 (see further discussion on the term debt financing in the "Liquidity and Financial Requirements" section).

At times, the Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in lumber prices, energy costs, interest and foreign exchange rates. In the first quarter of 2024, the Company recorded a net loss of $10.3 million, largely related to unrealized losses on SEK foreign exchange forward contracts.

Other income, net, of $19.2 million in the first quarter of 2024 was principally attributable to CPPI's receipt of $15.2 million in insurance proceeds in the current period related to operational downtime experienced at Northwood in recent years. Other income, net, of $4.6 million in the fourth quarter of 2023 was primarily comprised of mark-to-market gains on investments in certain highly liquid funds, partly offset by unfavourable foreign exchange movements on US-dollar denominated working capital balances. In the first quarter of 2023, other income, net, of $4.7 million was largely related to favourable foreign exchange movements on US-dollar denominated working capital balances, as well as the receipt of $2.4 million in insurance proceeds by CPPI related to operational downtime at Northwood in prior years.

Other Comprehensive Income

The following table summarizes Canfor's Other Comprehensive Income for the comparable periods:

(millions of Canadian dollars)	Q1 2024	Q4 2023	Q1 2023
Defined benefit actuarial gain, net of tax	**$ 6.3**	$ 5.5	$ 9.6
Foreign exchange translation differences for foreign operations, net of tax	**$ 11.2**	$ 10.8	$ 4.2
Other comprehensive income, net of tax	**$ 17.5**	$ 16.3	$ 13.8

In the first quarter of 2024, the Company recorded a gain of $8.6 million (before tax) related to changes in the valuation of the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), primarily reflecting a 0.3% increase in the discount rate used to value the net defined benefit obligations.

This compared to a gain of $7.5 million (before tax) recognized in the fourth quarter of 2023, as a 0.6% decrease in the discount rate used to value the net defined benefit obligations was more than offset by higher than anticipated returns on plan assets. In the first quarter of 2023, the Company recorded a gain of $13.1 million (before tax) largely due to a higher than anticipated return on plan assets.

On February 20, 2024, the Company purchased a buy-out annuity for a portion of its defined benefit pension plans. As a result, during the first quarter of 2024, $100.7 million of the Company's accrued benefit obligation and a similar amount of defined benefit plan assets were derecognized from the Company's condensed consolidated balance sheet. A settlement loss of $1.1 million was recognized in net income (loss) as a result of this transaction during the first quarter of 2024.

Subsequent to quarter-end, on April 16, 2024, the Company purchased an additional buy-out annuity for a portion of its defined benefit pension plans. As a result, during the second quarter of 2024, $52.7 million of the Company's accrued benefit obligation and a similar amount of plan assets will be derecognized from the condensed consolidated balance sheet.

In addition, the Company recorded an accounting gain of $11.2 million in the first quarter of 2024 related to foreign exchange differences for foreign operations due to the weakening of the Canadian dollar relative to the US-dollar at the close of the current quarter, offset in part by the strengthening of the Canadian dollar relative to the SEK at the end of the comparative period. This compared to a gain of $10.8 million in the previous quarter and a gain of $4.2 million in the first quarter of 2023.

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's cash flow, selected ratios and other key financial items for and as at the end of the following periods:

(millions of Canadian dollars, except for ratios)	**Q1 2024**	Q4 2023	Q1 2023
Decrease in cash and cash equivalents[20]	**$ (194.8)**	$ (229.7)	$ (320.7)
Operating activities	**$ (81.0)**	$ (8.4)	$ (226.3)
Financing activities	**$ (15.3)**	$ (48.1)	$ (30.3)
Investing activities	**$ (98.5)**	$ (173.2)	$ (64.1)
Ratio of current assets to current liabilities	**2.3 : 1**	2.5 : 1	3.2 : 1
Net cash to total capitalization[21]	**(3.5)%**	(9.1)%	(16.9)%
Cumulative duty deposits paid	**$ 944.0**	$ 931.0	$ 897.7

[20] Decrease in cash and cash equivalents shown before foreign exchange translation on cash and cash equivalents.
[21] Net cash to total capitalization is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

The changes in the components of these cash flows are discussed in the following sections:

Operating Activities

Cash used for operating activities was $81.0 million in the first quarter of 2024, compared to cash used of $8.4 million in the previous quarter and $226.3 million in the first quarter of 2023. The $72.6 million decrease in operating cash flows from the previous quarter primarily reflected unfavourable movements in non-cash working capital balances, offset in part by improved cash earnings in the current period. The former was principally driven by an increase in trade receivables combined with the traditional seasonal log inventory build during the current period, partially offset by a timing-related increase in accounts payable and accrued liabilities. Compared to the first quarter of 2023, operating cash flows improved by $145.3 million, mainly due to higher cash earnings and reduced tax installment payments in the current quarter.

Financing Activities

Cash used for financing activities in the first quarter of 2024 was $15.3 million, compared to $48.1 million in the previous quarter and $30.3 million in the first quarter of 2023. Financing activities in the current quarter and the same quarter of 2023 largely consisted of lease and interest payments as well as share repurchases. In the fourth quarter of 2023, financing activities primarily reflected a $46.0 million repayment of long-term debt, and to a lesser extent, share repurchases, interest and lease payments, offset in part by a net $26.5 million draw-down of the Company's operating loan facilities (refer to the "Liquidity and Financial Requirements" section for further details).

Investing Activities

Cash used for investing activities was $98.5 million for the current quarter, compared to cash used of $173.2 million in the previous quarter and $64.1 million in the comparative quarter in 2023. Investing activities in the current quarter as well as the comparative periods, were primarily comprised of capital additions.

Capital additions in the first quarter of 2024 were $103.4 million, down $68.7 million from the previous quarter and up $23.8 million from the first quarter of 2023. In the lumber segment, current quarter capital expenditures principally reflected ongoing spend associated with the upgrade and expansion of the Company's Urbana sawmill in Arkansas, and, to a lesser extent, construction costs related to the Company's greenfield sawmill in Axis, Alabama, as well as maintenance-of-business capital spend across all lumber operating regions. In the pulp and paper segment, capital expenditures were predominantly associated with maintenance-of-business capital.

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loans - Consolidated

At March 31, 2024, on a consolidated basis, including CPPI and the Vida Group ("Vida"), the Company had cash and cash equivalents of $421.3 million, with $116.1 million drawn on its operating loans and facilities, and an additional $63.9 million reserved for several standby letters of credit. At the end of the quarter, the Company had available, undrawn operating loan facilities of $1,317.2 million, including an undrawn committed revolving credit facility.

Operating Loans – Canfor, excluding Vida and CPPI

At March 31, 2024, Canfor, excluding Vida and CPPI, had available operating loan facilities totaling $1,048.3 million, with $57.0 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans, leaving $991.3 million available and undrawn on its operating and revolving loan facilities at the end of the period.

Interest is payable on Canfor's committed operating and revolving loan facilities, excluding Vida and CPPI, at floating rates based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar floating rate, plus a margin that varies with the Company's debt to total capitalization ratios.

Subsequent to quarter-end, on April 16, 2024, Canfor, excluding Vida and CPPI, increased the principal amount of its existing committed operating loan facility by $150.0 million to $925.0 million, and extended the maturity date from October 31, 2027 to April 16, 2028. In addition, Canfor, excluding Vida and CPPI, extended the maturity date of its US$150.0 million committed revolving credit facility from June 28, 2024 to April 16, 2025. On April 16, 2025, any amounts drawn on the committed revolving credit facility will be converted to US-dollar denominated floating rate term debt, with a maturity date of April 16, 2030.

Operating Loans – Vida

At March 31, 2024, Vida had $5.1 million drawn on its $108.9 million operating loan facilities, leaving $103.8 million available and undrawn at the end of the quarter.

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 2.8% to 5.9%. Vida also has separate overdraft facilities with fixed interest rates ranging from 5.5% to 8.3%.

Operating Loans – CPPI

At March 31, 2024, CPPI had $111.0 million drawn on its $160.0 million operating loan facility, with $6.9 million reserved for several standby letters of credit under the operating loan facility, leaving $42.1 million available and undrawn at the end of the period.

The terms of CPPI's operating loan facility include interest payable at floating rates based on lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar floating rate, plus a margin that varies with CPPI's debt to capitalization ratio. CPPI's operating loan facility is repayable on May 2, 2027 and has certain financial covenants, including a maximum debt to total capitalization ratio.

Term Debt

Canfor's and CPPI's term debt, excluding Vida, is unsecured. Vida's term debt is secured by its property, plant and equipment.

CPPI's $80.0 million non-revolving term debt, which is restricted for use on the continued re-investment in CPPI's facilities, specifically Northwood's RB1, has a maturity date of May 2, 2027, with interest payable at floating interest rates consistent with its operating loan facility. As at March 31, 2024, this non-revolving term debt remains undrawn.

Debt Covenants

Canfor, Vida and CPPI remained in compliance with all covenants relating to their respective operating loan facilities and term debt during the quarter and expect to remain so for the foreseeable future. Substantially all borrowings of Vida and CPPI are non-recourse to other entities within the Company.

Net Cash and Liquidity

At March 31, 2024, on a consolidated basis, including CPPI and Vida, the Company had total net cash of $141.3 million, down $215.6 million from the end of the previous quarter. Available liquidity of $1,638.5 million (of which

$80.0 million relates to CPPI's non-revolving term debt which is restricted for use on the continued re-investment in its facilities, specifically Northwood's RB1), decreased by $209.4 million from the previous quarter.

The Company's consolidated net cash to total capitalization at the end the first quarter of 2024 was 3.5%. For Canfor, excluding CPPI, net cash to capitalization at the end of the first quarter of 2024 was 5.9%.

Normal Course Issuer Bid

On March 19, 2024, the Company announced that it has received regulatory approval for a renewal of its normal course issuer bid whereby it can purchase for cancellation up to 5,942,508 common shares, or approximately 5% of its issued and outstanding common shares as of March 15, 2024. The renewed normal course issuer bid is set to expire on March 20, 2025.

During the first quarter of 2024, the Company purchased 225,200 common shares for $3.8 million (an average price of $16.89 per common share), of which $3.3 million was paid during the current quarter.

Shares Outstanding

As at March 31, 2024, and April 30, 2024, there were 118,706,579 common shares of the Company outstanding, and Canfor's ownership interest in CPPI and Vida was at 54.8% and 70.0%, respectively.

Countervailing and Anti-Dumping Duties

On January 1, 2024, the Company moved into the seventh period of review ("POR7"), which is based on sales and cost data in 2024. Consistent with prior periods of review, the Company was unable to estimate an applicable countervailing duty ("CVD") rate separate from the Department of Commerce's ("DOC") cash deposit rate. As a result, CVD was expensed at a rate of 1.36% for the first quarter of 2024, while anti-dumping duty ("ADD") rate was expensed at an estimated accrual rate of 15.00%. This resulted in a combined accounting rate of 16.36% for the current quarter (versus the DOC's combined cash deposit rate of 6.61%), down 20.00% from the previous quarter's accrual rate of 36.36% as a result of improved lumber pricing and lower costs.

In February 2024, the DOC announced the preliminary rates for the fifth period of review ("POR5"), which indicated the Company's preliminary CVD rate at 6.14% and ADD rate at 9.65%, resulting in a preliminary combined rate of 15.79%. Upon finalization of these rates, an expense, estimated at $58.8 million (US$42.2 million), will be recognized in the Company's consolidated financial statements (anticipated in the third quarter of 2024) to reflect the difference between the combined accrual rate of 11.42% between January and July 2022 and 9.95% for August to December 2022, and the DOC rates for POR5. In addition, once final, the Company's current combined cash deposit rate of 6.61% will be reset to the DOC rates for POR5 (currently estimated to be 15.79% based on the preliminary determination).

Canfor will continue to reassess the ADD accrual estimate at each quarter-end, applying the DOC's methodology to updated sales and cost data as this becomes available. Quarterly revisions to the ADD rate may result in a material adjustment to the consolidated statement of income (loss) while the Administrative Reviews are taking place. Changes to the DOC's existing CVD and ADD rates during the course of each administrative review may also result in material adjustments to the consolidated statement of income (loss).

Canfor and other Canadian forest product companies, the Federal Government and Canadian Provincial Governments continue to categorically deny the US allegations and strongly disagree with the current CVD and ADD determinations made by the DOC. Canada has proceeded with legal challenges under the Canada-United States-Mexico Agreement ("CUSMA") and through the World Trade Organization, where Canadian litigation has proven successful in the past. Most recently, in October 2023, a CUSMA dispute panel ruled that certain elements of the DOC's calculation of softwood lumber duties were inconsistent with US law. The panel has directed the DOC to revisit key elements of its duty calculations, which could potentially result in adjustments to Canfor's prescribed duties and therefore its condensed consolidated statement of income (loss).

OUTLOOK

Lumber

Looking ahead, North American lumber market pricing is projected to experience some weakness through the second quarter of 2024, particularly for SYP. Despite an anticipated seasonal uptick in residential construction activity and the benefit of concessions offered by new home builders, demand is forecast to be challenged by ongoing affordability headwinds in the near-term, especially in the multi-family segment. Demand in the repair and remodeling sector, however, is projected to remain steady through the second quarter of 2024. On the supply side, ongoing fibre and market-related downtime, especially in Western Canada, is anticipated to continue to reduce inventories to more balanced levels.

Offshore lumber demand and pricing in Asia is projected to show some improvement in the second quarter of 2024 primarily due to the benefit of various government stimulus measures, particularly in Japan, and the ongoing reduction of lumber inventories in that region.

In Europe, lumber market pricing is forecast to improve slightly in the second quarter of 2024, as steady activity in the do-it-yourself sector and some persistent lumber supply constraints, tied in part to reduced log availability and increasing log costs in the region, are met with ongoing low levels of European residential construction activity.

In the US South, subsequent to quarter-end, in April 2024, the Company announced the decision to permanently close its Jackson, Alabama, facility at the end of the second quarter of 2024 and expand production at its Fulton, Alabama, facility through a second shift. These steps, together with the previously announced construction of a new, state-of-the art greenfield sawmill in Axis, Alabama, are anticipated to grow the Company's regional manufacturing platform by 100 million board feet of annual production capacity and consolidate operations at modern facilities that are well positioned to be competitive for the long-term.

In addition, on April 30, 2024, the Company announced that it has entered into an agreement with Resolute Forest Products Inc., an affiliate of Domtar Corporation, to purchase its El Dorado lumber manufacturing facility located in Union County, Arkansas, for US$73 million, including working capital. The facility, which is close to key end-markets, produces dimensional lumber and specialty wood products and is expected to increase Canfor's annual SYP lumber capacity by 175 million board feet after US$50 million of planned upgrades. The transaction is anticipated to close later in 2024 following the completion of customary closing conditions.

In Western Canada, there remains significant uncertainty with regards to the availability of economically viable fibre in British Columbia. The Company continues to anticipate sustained log cost pressures and persistent constraints accessing economically viable fibre in BC for its sawmills, as well as a challenging fibre environment for CPPI's pulp mills. With these ongoing fibre-related pressures, the Company continues to evaluate its options and will adjust its operating rates in BC to align with demand and economically available timber supply in the near-term and through the balance of 2024.

Pulp and Paper

Looking forward, global softwood kraft pulp market conditions are anticipated to strengthen somewhat through the second quarter of 2024, largely in response to global pulp supply disruptions, stemming from the transportation labour dispute in Finland, as well as pulp producer downtime.

Bleached kraft paper demand is forecast to show signs of strengthening through the second quarter of 2024, before stabilizing through the balance of the year.

In the second quarter of 2024, maintenance outages are scheduled at Intercon and at CPPI's paper machine, which are projected to reduce NBSK market pulp production by 5,000 tonnes and reduce paper production by 5,000 tonnes.

Given the ongoing uncertainty with regards to the availability of economically viable fibre in BC, and the continued weakness in North American lumber markets, CPPI anticipates a challenging fibre supply environment for its pulp mills (both for sawmill residual chips and whole log chips), through the balance of 2024. CPPI will continue to evaluate its operating conditions and will adjust operating rates at its pulp mills to align with economically viable fibre supply, which will impact CPPI's production, shipments and cost structure. These factors could also affect CPPI's operating plan, liquidity, cash flows and the valuation of long-lived assets.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, certain receivables, pension and other employee future benefit plans, asset retirement and deferred reforestation obligations, and the determination of ADD expensed and recorded as recoverable based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Company's financial condition, other than the possibility of material effects to the income statement from the Company's estimated ADD net duty deposits recoverable as discussed in Notes 4 and 12 of the condensed consolidated interim financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2024, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2023 annual statutory reports which are available on www.canfor.com or www.sedarplus.com.

In addition to exposure to changes in product prices and foreign exchange, the Company's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions, as well as forest fires, can cause logging curtailments, which can affect the supply of raw materials to sawmills and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for lumber products, is generally stronger in the spring and fall months. Shipment volumes are affected by these factors as well as by global supply chain networks and demand conditions. Net income is also impacted by fluctuations in Canadian dollar exchange rates, and the revaluation to the period end rate of US-dollar and SEK denominated working capital balances, US-dollar and SEK denominated debt and revaluation of outstanding derivative financial instruments.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 1,382.7**	$ 1,282.9	$ 1,312.3	$ 1,446.0	$ 1,385.4	$ 1,373.3	$ 1,666.4	$ 2,173.1
Operating income (loss) before amortization, asset write-downs and impairments[22]	**$ 19.8**	$ (89.1)	$ 42.6	$ 41.0	$ (105.7)	$ (62.6)	$ 211.5	$ 630.3
Operating income (loss)	**$ (85.8)**	$ (191.3)	$ (65.1)	$ (66.7)	$ (208.5)	$ (308.0)	$ 108.6	$ 531.6
Net income (loss)	**$ (64.3)**	$ (121.6)	$ (34.7)	$ (48.6)	$ (143.6)	$ (231.4)	$ 106.5	$ 415.5
Shareholder net income (loss)	**$ (64.5)**	$ (117.1)	$ (23.1)	$ (43.9)	$ (142.0)	$ (207.9)	$ 87.4	$ 373.8
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ (0.54)**	$ (0.98)	$ (0.19)	$ (0.36)	$ (1.17)	$ (1.70)	$ 0.71	$ 3.02
Book value[23]	**$ 31.69**	$ 32.10	$ 32.89	$ 32.63	$ 33.81	$ 34.87	$ 36.14	$ 34.77
Statistics								
Lumber shipments (MMfbm)[24]	**1,371**	1,333	1,288	1,406	1,340	1,239	1,311	1,528
Pulp shipments (000 mt)	**159**	136	142	179	152	170	199	205
Average exchange rate – US$/Cdn$	**$ 0.741**	$ 0.734	$ 0.746	$ 0.745	$ 0.740	$ 0.736	$ 0.766	$ 0.783
Average exchange rate – SEK/Cdn$	**7.706**	7.819	8.056	7.833	7.726	7.891	8.082	7.708
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 446**	$ 400	$ 419	$ 358	$ 386	$ 410	$ 580	$ 866
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 419**	$ 448	$ 452	$ 486	$ 485	$ 451	$ 722	$ 769
Average SYP (East) 2x6 #2 lumber price (US$)	**$ 354**	$ 333	$ 404	$ 385	$ 420	$ 449	$ 459	$ 556
Average NBSK pulp list price delivered to China (US$)	**$ 745**	$ 748	$ 680	$ 668	$ 891	$ 920	$ 969	$ 1,008

[22] Amortization includes amortization of certain capitalized major maintenance costs; includes asset write-down and impairment charges of $138.6 million in 2022.

[23] Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

[24] Includes Canfor produced lumber, as well as lumber purchased for resale, remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

Other factors that impact the comparability of the quarters are noted below:

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except for per share amounts)	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022
Shareholder net income (loss), as reported	**$ (64.5)**	$ (117.1)	$ (23.1)	$ (43.9)	$ (142.0)	$ (207.9)	$ 87.4	$ 373.8
Foreign exchange (gain) loss on term debt	**$ 6.6**	$ (5.3)	$ 6.4	$ (6.7)	$ (0.4)	$ (1.7)	$ 10.6	$ 4.9
(Gain) loss on derivative financial instruments	**$ 5.8**	$ (4.8)	$ (2.7)	$ 6.3	$ (2.5)	$ (2.0)	$ 0.5	$ 1.0
Asset write-downs and impairments	**$ -**	$ -	$ -	$ -	$ -	$ 84.8	$ -	$ -
Net impact of above items	**$ 12.4**	$ (10.1)	$ 3.7	$ (0.4)	$ (2.9)	$ 81.1	$ 11.1	$ 5.9
Adjusted shareholder net income (loss)[25]	**$ (52.1)**	$ (127.2)	$ (19.4)	$ (44.3)	$ (144.9)	$ (126.8)	$ 98.5	$ 379.7
Shareholder net income (loss) per share (EPS), as reported	**$ (0.54)**	$ (0.98)	$ (0.19)	$ (0.36)	$ (1.17)	$ (1.70)	$ 0.71	$ 3.02
Net impact of above items per share	**$ 0.10**	$ (0.08)	$ 0.03	$ -	$ (0.03)	$ 0.66	$ 0.09	$ 0.05
Adjusted net income (loss) per share[25]	**$ (0.44)**	$ (1.06)	$ (0.16)	$ (0.36)	$ (1.20)	$ (1.04)	$ 0.80	$ 3.07

[25] Adjusted shareholder net income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

NON-IFRS FINANCIAL MEASURES

Throughout this interim MD&A, reference is made to certain non-IFRS financial measures which are used to evaluate the Company's performance but are not generally accepted under IFRS. The following table provides a reconciliation of these non-IFRS financial measures to figures reported in the Company's condensed consolidated interim financial statements:

(millions of Canadian dollars)	Q1 2024	Q4 2023	Q1 2023
Reported operating loss	**$ (85.8)**	$ (191.3)	$ (208.5)
Inventory write-down (recovery), net	**$ (30.2)**	$ (41.1)	$ 62.1
Adjusted operating loss	**$ (116.0)**	$ (232.4)	$ (146.4)
Amortization	**$ 105.6**	$ 102.2	$ 102.8
Adjusted operating loss before amortization	**$ (10.4)**	$ (130.2)	$ (43.6)

(millions of Canadian dollars, except ratios)	Q1 2024	Q4 2023	Q1 2023
Reported operating loss	**$ (85.8)**	$ (191.3)	$ (208.5)
Realized (gain) loss on derivative financial instruments	**$ 0.4**	$ (5.5)	$ (1.2)
Other income, net	**$ 19.2**	$ 4.6	$ 4.7
Less: non-controlling interests	**$ 7.1**	$ (22.0)	$ (4.3)
Loss	**$ (73.3)**	$ (170.2)	$ (200.7)
Average invested capital[26]	**$ 4,267.9**	$ 4,194.2	$ 4,159.1
Return on invested capital (ROIC)	**(1.7)%**	(4.1)%	(4.8)%

[26] Average invested capital represents the average during the period of total assets excluding cash and cash equivalents and total liabilities excluding term debt, retirement benefit obligations, long-term deferred reforestation obligations, and deferred taxes, net of non-controlling interests.

(millions of Canadian dollars, except ratios)	As at March 31, 2024	As at December 31, 2023	As at March 31, 2023
Term debt	**$ 163.9**	$ 159.9	$ 258.9
Operating loans	**$ 116.1**	$ 110.6	$ 21.9
Less: cash and cash equivalents	**$ 421.3**	$ 627.4	$ 949.8
Net cash	**$ (141.3)**	$ (356.9)	$ (669.0)
Total equity	**$ 4,222.1**	$ 4,277.4	$ 4,619.6
Total capitalization	**$ 4,080.8**	$ 3,920.5	$ 3,950.6
Net cash to total capitalization	**(3.5)%**	(9.1)%	(16.9)%

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at March 31, 2024**		As at December 31, 2023
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**421.3**	$	627.4
Trade receivables		**395.5**		297.9
Other receivables		**94.1**		105.6
Income taxes recoverable		**113.4**		109.3
Inventories (Note 3)		**1,122.6**		994.8
Prepaid expenses and other		**127.9**		122.7
Total current assets		**2,274.8**		2,257.7
Property, plant and equipment		**2,440.7**		2,429.8
Right-of-use assets		**126.2**		123.1
Timber licenses		**344.1**		346.8
Goodwill and other intangible assets		**516.6**		519.3
Long-term investments and other (Note 4)		**454.1**		454.7
Total assets	**$**	**6,156.5**	$	6,131.4
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**737.0**	$	664.5
Operating loans (Note 5(a))		**116.1**		110.6
Current portion of deferred reforestation obligations		**52.6**		52.6
Current portion of term debt (Note 5(b))		**46.0**		44.8
Current portion of lease obligations		**31.0**		30.6
Income taxes payable		**3.4**		2.1
Total current liabilities		**986.1**		905.2
Term debt (Note 5(b))		**117.9**		115.1
Retirement benefit obligations (Note 6)		**129.1**		132.9
Lease obligations		**100.9**		98.2
Deferred reforestation obligations		**71.3**		47.4
Other long-term liabilities		**35.7**		37.5
Put liability (Note 7)		**185.0**		187.7
Deferred income taxes, net		**308.4**		330.0
Total liabilities	**$**	**1,934.4**	$	1,854.0
EQUITY				
Share capital	**$**	**936.5**	$	938.3
Contributed surplus and other equity		**(174.1)**		(169.8)
Retained earnings		**2,942.8**		3,004.2
Accumulated other comprehensive income		**56.7**		45.5
Total equity attributable to equity shareholders of the Company		**3,761.9**		3,818.2
Non-controlling interests		**460.2**		459.2
Total equity	**$**	**4,222.1**	$	4,277.4
Total liabilities and equity	**$**	**6,156.5**	$	6,131.4

Subsequent Events (Notes 5, 6 and 14)

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, The Hon. J.R. Baird

Canfor Corporation
Condensed Consolidated Statements of Income (Loss)

(millions of Canadian dollars, except per share data, unaudited)		3 months ended March 31, **2024**		2023
Sales	**$**	**1,382.7**	$	1,385.4
Costs and expenses				
Manufacturing and product costs		**1,117.2**		1,237.8
Freight and other distribution costs		**175.2**		166.0
Countervailing and anti-dumping duty expense, net (Note 12)		**28.4**		29.2
Amortization		**105.6**		102.8
Selling and administration costs		**42.1**		44.4
Restructuring costs		**-**		13.7
		1,468.5		1,593.9
Operating loss		**(85.8)**		(208.5)
Finance income (expense), net		**(2.6)**		3.0
Foreign exchange gain (loss) on term debt		**(7.7)**		0.5
Foreign exchange gain on long-term investments		**7.8**		-
Gain (loss) on derivative financial instruments (Note 7)		**(10.3)**		3.5
Other income, net (Note 13)		**19.2**		4.7
Net loss before income taxes		**(79.4)**		(196.8)
Income tax recovery (Note 8)		**15.1**		53.2
Net loss	**$**	**(64.3)**	$	(143.6)
Net income (loss) attributable to:				
Equity shareholders of the Company	**$**	**(64.5)**	$	(142.0)
Non-controlling interests		**0.2**		(1.6)
Net loss	**$**	**(64.3)**	$	(143.6)
Net loss per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 9)	**$**	**(0.54)**	$	(1.17)

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

Canfor Corporation
Condensed Consolidated Statements of Other Comprehensive Income (Loss)

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2024**	2023
Net loss	**$ (64.3)**	$ (143.6)
Other comprehensive income (loss)		
Items that will not be reclassified subsequently to net income (loss):		
Defined benefit plan actuarial gains, net (Note 6)	**8.6**	13.1
Income tax expense on defined benefit plan actuarial gains, net (Note 8)	**(2.3)**	(3.5)
	6.3	9.6
Items that may be reclassified subsequently to net income (loss):		
Foreign exchange translation of foreign operations, net of tax	**11.2**	4.2
Other comprehensive income, net of tax	**17.5**	13.8
Total comprehensive loss	**$ (46.8)**	$ (129.8)
Total comprehensive loss attributable to:		
Equity shareholders of the Company	**$ (48.2)**	$ (129.1)
Non-controlling interests	**1.4**	(0.7)
Total comprehensive loss	**$ (46.8)**	$ (129.8)

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

Canfor Corporation
Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2024	2023
Share capital		
Balance at beginning of period	**$ 938.3**	$ 955.1
Share purchases (Note 9)	**(1.8)**	(3.2)
Balance at end of period	**$ 936.5**	$ 951.9
Contributed surplus and other equity		
Balance at beginning of period	**$ (169.8)**	$ (157.7)
Put liability (Note 7)	**(4.3)**	(4.2)
Balance at end of period	**$ (174.1)**	$ (161.9)
Retained earnings		
Balance at beginning of period	**$ 3,004.2**	$ 3,341.5
Net loss attributable to equity shareholders of the Company	**(64.5)**	(142.0)
Defined benefit plan actuarial gains, net of tax	**5.1**	8.7
Share purchases (Note 9)	**(2.0)**	(6.0)
Balance at end of period	**$ 2,942.8**	$ 3,202.2
Accumulated other comprehensive income		
Balance at beginning of period	**$ 45.5**	$ 82.6
Foreign exchange translation of foreign operations, net of tax	**11.2**	4.2
Balance at end of period	**$ 56.7**	$ 86.8
Total equity attributable to equity shareholders of the Company	**$ 3,761.9**	$ 4,079.0
Non-controlling interests		
Balance at beginning of period	**$ 459.2**	$ 541.3
Net income (loss) attributable to non-controlling interests	**0.2**	(1.6)
Defined benefit plan actuarial gains attributable to non-controlling interests, net of tax	**1.2**	0.9
Distributions to non-controlling interests, net	**(0.4)**	-
Balance at end of period	**$ 460.2**	$ 540.6
Total equity	**$ 4,222.1**	$ 4,619.6

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2024	2023
Cash generated from (used in):		
Operating activities		
Net loss	**$ (64.3)**	$ (143.6)
Items not affecting cash:		
Amortization	**105.6**	102.8
Income tax recovery (Note 8)	**(15.1)**	(53.2)
Change in long-term portion of deferred reforestation obligations, net	**23.5**	20.1
Foreign exchange (gain) loss on term debt	**7.7**	(0.5)
Foreign exchange gain on duty deposits recoverable, net	**(7.8)**	-
Duties paid less than accruals (Note 12)	**15.4**	19.4
Changes in mark-to-market value of derivative financial instruments	**9.8**	(2.3)
Employee future benefits expense	**2.5**	5.3
Finance (income) expense, net	**2.6**	(3.0)
Restructuring costs	**-**	13.7
Other, net	**-**	(1.7)
Defined benefit plan contributions	**(3.3)**	(3.4)
Income taxes paid, net	**(2.9)**	(57.2)
	73.7	(103.6)
Net change in non-cash working capital (Note 10)	**(154.7)**	(122.7)
	(81.0)	(226.3)
Financing activities		
Operating loan drawings (repayments), net	**5.7**	(6.0)
Proceeds from term debt, net	**0.2**	0.1
Payments of lease obligations	**(8.9)**	(7.7)
Finance expenses paid	**(8.6)**	(5.6)
Share purchases (Note 9)	**(3.3)**	(11.1)
Cash distributions paid to non-controlling interests, net	**(0.4)**	-
	(15.3)	(30.3)
Investing activities		
Additions to property, plant and equipment and intangible assets, net	**(103.4)**	(79.6)
Interest income received	**6.0**	9.3
Other, net	**(1.1)**	6.2
	(98.5)	(64.1)
Foreign exchange gain (loss) on cash and cash equivalents	**(11.3)**	1.8
Decrease in cash and cash equivalents*	**(206.1)**	(318.9)
Cash and cash equivalents at beginning of period*	**627.4**	1,268.7
Cash and cash equivalents at end of period*	**$ 421.3**	$ 949.8

*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.

Canfor Corporation
Notes to the Condensed Consolidated Interim Financial Statements
Three months ended March 31, 2024 and 2023

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 Corporation and its subsidiaries, hereinafter referred to as "Canfor" or "the Company." Significant subsidiaries include Canfor Southern Pine, Inc. ("CSP") and entities related to the acquisition of Millar Western Forest Products Ltd. ("Millar Western"), which are wholly owned, as well as Canfor Pulp Products Inc. ("CPPI") and the Vida Group ("Vida"), of which Canfor owned 54.8% and 70.0%, respectively, at March 31, 2024.

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 April 30, 2024.

2. Seasonality of Operations

Canfor's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions such as forest fires, hurricanes and flooding, can cause logging curtailments which can affect the supply of raw materials to sawmills and pulp mills. Market demand also varies seasonally to some degree. Building activity and repair and renovation work, which affect demand for solid wood products, are generally stronger in the spring and fall months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

3. Inventories

(millions of Canadian dollars, unaudited)		**As at March 31, 2024**		As at December 31, 2023
Logs	**$**	**325.7**	$	199.4
Finished products		**609.6**		600.6
Residual fibre		**25.4**		38.2
Materials and supplies		**161.9**		156.6
	$	**1,122.6**	$	994.8

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended March 31, 2024, a $30.2 million net reversal of a previously recognized inventory write-down was recognized for the lumber segment (three months ended March 31, 2023 – $58.5 million inventory write-down expense). At March 31, 2024, an inventory provision of $10.7 million has been recognized for logs and lumber (December 31, 2023 – $40.9 million inventory provision).

For the three months ended March 31, 2024, no inventory valuation adjustment was recognized for the pulp and paper segment (three months ended March 31, 2023 – $3.6 million inventory write-down expense). At March 31, 2024, no inventory provision has been recognized for the pulp and paper segment (December 31, 2023 – no inventory provision).

4. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)		**As at March 31, 2024**		As at December 31, 2023
Duty deposits recoverable, net (Note 12)	**$**	**285.2**	$	289.5
Other deposits, loans, advances and long-term assets		**54.3**		54.2
Other investments		**96.4**		90.8
Retirement benefit surplus		**14.9**		10.8
Deferred income taxes, net		**3.3**		9.4
	$	**454.1**	$	454.7

The duty deposits recoverable, net balance represents US-dollar countervailing duties ("CVD") and anti-dumping duties ("ADD") and duty cash deposits paid in excess of the calculated expense accrued at March 31, 2024, including interest receivable of $65.9 million (December 31, 2023 – $60.8 million) (Note 12).

5. Operating Loans and Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)	**As at March 31, 2024**	As at December 31, 2023
Canfor (excluding Vida and CPPI)		
Available operating loans:		
Operating loan facility	**$ 775.0**	$ 775.0
Revolving credit facility (US$150.0 million)	**203.3**	198.4
Facilities for letters of credit	**70.0**	70.0
Total operating loan facilities	**1,048.3**	1,043.4
Letters of credit covered under operating loan facility	**(2.8)**	(2.7)
Letters of credit covered under facilities for letters of credit	**(54.2)**	(53.9)
Total available operating loan facilities - Canfor	**$ 991.3**	$ 986.8
Vida		
Available operating loans:		
Operating loan facilities	**$ 64.9**	$ 67.2
Overdraft facilities	**44.0**	44.0
Total operating loan facilities	**108.9**	111.2
Operating loan facilities drawn	**(5.1)**	(3.6)
Total available operating loan facilities – Vida	**$ 103.8**	$ 107.6
CPPI		
Available operating loans:		
Operating loan facility	**$ 160.0**	$ 160.0
Letters of credit	**(6.9)**	(6.9)
Operating loan facility drawn	**(111.0)**	(107.0)
Total available operating loan facility – CPPI	**$ 42.1**	$ 46.1
Consolidated:		
Total operating loan facilities	**$ 1,317.2**	$ 1,314.6
Total operating loan facilities drawn	**$ (116.1)**	$ (110.6)
Total letters of credit	**$ (63.9)**	$ (63.5)
Total available operating loan facilities	**$ 1,137.2**	$ 1,140.5

Interest is payable on Canfor and CPPI's committed operating and revolving loan facilities at floating rates based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar floating rate, plus a margin that varies with Canfor and CPPI's debt to total capitalization ratios.

Subsequent to quarter end, on April 16, 2024, Canfor (excluding Vida and CPPI), increased the principal amount of its existing committed operating loan facility by $150.0 million to $925.0 million, and extended the maturity date from October 31, 2027 to April 16, 2028. In addition, Canfor (excluding Vida and CPPI), extended the maturity date of its US$150.0 million committed revolving credit facility from June 28, 2024 to April 16, 2025. On April 16, 2025, any amounts drawn on Canfor's committed revolving credit facility will be converted to US-dollar denominated floating rate term debt, with a maturity date of April 16, 2030.

CPPI's operating loan facility is repayable on May 2, 2027.

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 2.8% to 5.9%. Vida also has separate overdraft facilities with fixed interest rates ranging from 5.5% to 8.3%.

Canfor and CPPI's operating loan facilities have certain financial covenants, including maximum debt to total capitalization ratios. Vida is also subject to certain financial covenants, including minimum equity and interest coverage ratios. As at March 31, 2024, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their operating loan facilities. Substantially all borrowings of Vida and CPPI are non-recourse to other entities within the Company.

(b) Term Debt

(millions of Canadian dollars, unaudited)		**As at March 31, 2024**		As at December 31, 2023
Canfor (excluding Vida and CPPI)				
US$50.0 million, floating interest, repayable on June 28, 2031	**$**	**67.8**	$	66.1
US$66.7 million, fixed interest of 4.4%, repayable in two equal tranches on October 2, 2024 and 2025		**90.3**		88.2
Other		**5.3**		5.1
Vida				
AUD$0.7 million, floating interest, repayable between April 23, 2024 and May 31, 2028		**0.5**		0.5
CPPI				
Up to CAD$80.0 million, floating interest, repayable on May 2, 2027		**-**		-
Term debt at end of period	**$**	**163.9**	$	159.9
Less: Current portion		**(46.0)**		(44.8)
Long-term portion	**$**	**117.9**	$	115.1

CPPI's $80.0 million 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.

Canfor's and CPPI's term debt (excluding Vida) is unsecured. Vida's term debt is secured by its property, plant and equipment. Canfor's and CPPI's borrowings (excluding Vida) are subject to certain financial covenants, including a maximum debt to total capitalization ratio. Vida's borrowings are subject to certain financial covenants, including minimum equity and interest coverage ratios. As at March 31, 2024, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their term debt.

Fair value of total term debt

At March 31, 2024, the fair value of the Company's term debt is $158.4 million (December 31, 2023 – $153.7 million), determined based on prevailing market rates for term debt with similar characteristics and risk profile.

6. Employee Future Benefits

For the three months ended March 31, 2024, actuarial gains of $8.6 million (before tax) were recognized in other comprehensive income (loss) in relation to the Company's net defined benefit obligations (comprised of defined benefit pension plans as well as other benefit plans), primarily reflecting a 0.3% increase in the discount rate used to value the net defined benefit obligations.

For the three months ended March 31, 2023, actuarial gains of $13.1 million (before tax) were recognized in other comprehensive income (loss) in relation to the Company's net defined benefit obligations, principally reflecting a higher than anticipated return on plan assets.

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

	Defined Benefit Pension Plans	**Other Benefit Plans**
March 31, 2024	**4.9%**	**4.9%**
December 31, 2023	4.6%	4.6%
March 31, 2023	4.8%	4.8%
December 31, 2022	4.8%	4.8%

On February 20, 2024, the Company purchased a buy-out annuity for a portion of its defined benefit pension plans. As a result, during the three months ended March 31, 2024, $100.7 million of the Company's accrued benefit obligation and a similar amount of defined benefit plan assets were derecognized from the Company's condensed consolidated interim balance sheet. A settlement loss of $1.1 million was recognized in net income (loss) as a result of this transaction during the three months ended March 31, 2024.

Subsequent to quarter-end, on April 16, 2024, the Company purchased an additional buy-out annuity for a portion of its defined benefit pension plans. As a result, during the three months ended June 30, 2024, $52.7 million of the

Company's accrued benefit obligation and a similar amount of plan assets will be derecognized from the condensed consolidated interim balance sheet.

7. Financial Instruments

IFRS 13 *Fair Value Measurement* requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, directly or indirectly;

Level 3 – Inputs that are not based on observable market data.

The following table summarizes Canfor's financial instruments measured at fair value at March 31, 2024 and December 31, 2023, and shows the level within the fair value hierarchy in which the financial instruments have been classified:

(millions of Canadian dollars, unaudited)	Fair Value Hierarchy Level		**As at March 31, 2024**		As at December 31, 2023
Financial assets measured at fair value					
Investments	Level 1	**$**	**94.5**	$	89.1
Derivative financial instruments	Level 2		**0.1**		4.4
Duty deposits recoverable, net (Note 4)	Level 3		**285.2**		289.5
		$	**379.8**	$	383.0
Financial liabilities measured at fair value					
Derivative financial instruments	Level 2	**$**	**5.4**	$	-
Put liability	Level 3	**$**	**185.0**	$	187.7
		$	**190.4**	$	187.7

The following table summarizes the gains (losses) on derivative financial instruments in the condensed consolidated interim statement of income (loss):

	3 months ended March 31,			
(millions of Canadian dollars, unaudited)		**2024**		2023
Lumber futures	**$**	**(0.5)**	$	3.6
Foreign exchange forward contracts		**(9.8)**		(0.1)
Gain (loss) on derivative financial instruments	**$**	**(10.3)**	$	3.5

During the three months ended March 31, 2024, a loss of $4.3 million was recognized in 'Other Equity' on the Company's condensed consolidated interim balance sheet following remeasurement of the put liability (three months ended March 31, 2023 – loss of $4.2 million), primarily reflecting the passage of time. As a result of this remeasurement, combined with a foreign exchange gain of $7.0 million (three months ended March 31, 2023 – loss of $0.8 million), the balance of the put liability was $185.0 million at March 31, 2024 (December 31, 2023 – $187.7 million).

8. Income Taxes

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

	3 months ended March 31,			
(millions of Canadian dollars, unaudited)		**2024**		2023
Current	**$**	**-**	$	23.7
Deferred		**15.1**		29.5
Income tax recovery	**$**	**15.1**	$	53.2

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

	3 months ended March 31,			
(millions of Canadian dollars, unaudited)		**2024**		2023
Income tax recovery at statutory rate of 27.0% (2023 – 27.0%)	**$**	**21.4**	$	53.1
Add (deduct):				
Non-taxable income related to non-controlling interests		**(0.2)**		(0.2)
Entities with different income tax rates and other tax adjustments		**(5.0)**		1.3
Permanent difference from capital gains and losses and other non-deductible items		**(1.1)**		(1.0)
Income tax recovery	**$**	**15.1**	$	53.2

In addition to the amounts recorded to net income (loss), a tax expense of $2.3 million was recorded to other comprehensive income (loss) in relation to actuarial gains, net, on the defined benefit plans for the three months ended March 31, 2024 (three months ended March 31, 2023 – $3.5 million).

9. Earnings (Loss) Per Common Share and Normal Course Issuer Bid

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

	3 months ended March 31,	
	2024	2023
Weighted average number of common shares	**118,905,217**	120,986,093

On March 19, 2024, the Company announced that it has received regulatory approval for a renewal of its normal course issuer bid whereby it can purchase for cancellation up to 5,942,508 common shares, or approximately 5% of its issued and outstanding common shares as at March 15, 2024. The renewed normal course issuer bid is set to expire on March 20, 2025.

During the three months ended March 31, 2024, the Company purchased 225,200 common shares for $3.8 million (an average of $16.88 per common share), of which $3.3 million was paid during the quarter.

As at March 31, 2024 and April 30, 2024, based on the trade date, there were 118,706,579 common shares of the Company outstanding and Canfor's ownership interest in CPPI and Vida was 54.8% and 70.0%, respectively.

10. Net Change in Non-Cash Working Capital

	3 months ended March 31,	
(millions of Canadian dollars, unaudited)	**2024**	2023
Accounts receivable	**$ (91.8)**	$ (99.2)
Inventories	**(133.2)**	(75.9)
Prepaid expenses and other	**(6.7)**	(38.9)
Accounts payable and accrued liabilities and current portion of deferred reforestation obligations	**77.0**	91.3
Net change in non-cash working capital	**$ (154.7)**	$ (122.7)

11. Segment Information

Canfor has two reportable segments (lumber segment and pulp and paper segment), which offer different products and are managed separately because they require different production processes and marketing strategies.

Sales between segments are accounted for at prices that approximate fair value. These include sales of residual fibre from the lumber segment to the pulp and paper segment for use in the pulp production process.

(millions of Canadian dollars, unaudited)	Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment	Consolidated
3 months ended March 31, 2024					
Sales from contracts with customers	**$ 1,160.4**	**$ 222.3**	**$ -**	**$ -**	**$ 1,382.7**
Sales to other segments	**39.4**	**-**	**-**	**(39.4)**	**-**
Operating loss	**(57.1)**	**(15.7)**	**(13.0)**	**-**	**(85.8)**
Amortization	**88.1**	**16.9**	**0.6**	**-**	**105.6**
Capital expenditures[1]	**90.7**	**12.0**	**0.7**	**-**	**103.4**
Total assets	**4,521.8**	**634.8**	**999.9**	**-**	**6,156.5**
3 months ended March 31, 2023					
Sales from contracts with customers	$ 1,142.1	$ 243.3	$ -	$ -	$ 1,385.4
Sales to other segments	44.4	-	-	(44.4)	-
Operating loss	(169.7)	(25.2)	(13.6)	-	(208.5)
Amortization	77.5	24.6	0.7	-	102.8
Capital expenditures[1,2]	63.9	12.0	3.7	-	79.6
Total assets	4,404.8	736.1	1,514.0	-	6,654.9

[1]Capital expenditures represent cash paid for capital assets during the periods, excluding assets purchased as part of acquisitions.
[2]Pulp & Paper includes capital expenditures by CPPI that were partially financed by government grants.

Geographic information

Canfor operates manufacturing facilities in Canada, the US and Europe. Canfor'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 March 31, **2024**			3 months ended March 31, 2023
Sales by location of customer						
Canada	**10%**	**$**	**140.5**	12%	$	170.6
United States	**50%**		**679.8**	49%		681.5
Europe	**23%**		**320.1**	21%		288.9
Asia	**15%**		**209.9**	15%		208.6
Other	**2%**		**32.4**	3%		35.8
	100%	**$**	**1,382.7**	100%	$	1,385.4

12. Countervailing and Anti-Dumping Duties

In 2016, a petition was filed by the US Lumber Coalition to the US Department of Commerce ("DOC") and the US International Trade Commission ("ITC") alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers. Canfor was selected by the DOC as a "mandatory respondent" to the countervailing and anti-dumping investigations and is subject to company specific CVD and ADD rates. As a result of the DOC's investigation, CVD and ADD were imposed on the Company's Canadian lumber exports to the United States beginning in 2017. As at March 31, 2024, Canfor has paid cumulative cash deposits of $944.0 million.

Canfor and other Canadian forest product companies, the Federal Government and Canadian Provincial Governments continue to categorically deny the US allegations and strongly disagree with the current countervailing and anti-dumping determinations made by the DOC. Canada has proceeded with legal challenges under the United States-Mexico-Canada Agreement and through the World Trade Organization, where Canadian litigation has proven successful in the past.

On January 1, 2024, the Company moved into the seventh period of review ("POR7"), which is based on sales and cost data in 2024. Consistent with prior periods of review, the Company was unable to estimate an applicable CVD rate separate from the DOC's cash deposit rate. As a result, CVD was expensed at a rate of 1.36% for the three months ended March 31, 2024, while ADD was expensed at an estimated accrual rate of 15.00%. This resulted in a combined accounting rate of 16.36% for the current quarter (versus the DOC's combined cash deposit rate of 6.61%), down 20.00% from the previous quarter's accrual rate of 36.36% as a result of improved lumber pricing and lower costs. Despite cash deposits being made in 2024 at rates determined by the DOC, the final liability associated with duties is not determined until the completion of administrative reviews performed by the DOC.

In February 2024, the DOC announced the preliminary rates for the fifth period of review ("POR5"), which indicated the Company's preliminary CVD rate at 6.14% and ADD rate at 9.65%, resulting in a preliminary combined rate of 15.79%. Upon finalization of these rates, an expense, estimated at $58.8 million (US$42.2 million), will be recognized in the Company's condensed consolidated interim financial statements (anticipated in the third quarter of 2024) to reflect the difference between the combined accrual rate of 11.42% between January and July 2022 and 9.95% for August to December 2022, and the DOC rates for POR5. In addition, once final, the Company's current combined cash deposit rate of 6.61% will be reset to the DOC rates for POR5 (currently estimated to be 15.79% based on the preliminary determination).

Summary

For accounting purposes, a net duty recoverable of $285.2 million is included on the Company's condensed consolidated interim balance sheet (Note 4) reflecting differences between the cash deposit rates and the Company's combined accrual rates for each period of review, including interest. For the three months ended March 31, 2024, the Company recorded a net duty expense of $28.4 million (three months ended March 31, 2023 – net duty expense of $29.2 million), comprised of the following:

(millions of Canadian dollars, unaudited)		3 months ended March 31, **2024**
Cash deposits paid	**$**	**13.0**
Duty expense attributable to POR7 – combined CVD and ADD[3]		**15.4**
Duty expense, net	**$**	**28.4**

[3]Reflects Canfor's combined accrual rate of 16.36% compared to the DOC's deposit rate of 6.61% for POR7.

Canfor will continue to reassess the ADD accrual estimate at each quarter-end, applying the DOC's methodology to updated sales and cost data as this becomes available. Quarterly revisions to the ADD rate may result in a material adjustment to the condensed consolidated interim statement of income (loss) while the Administrative Reviews are taking place. Changes to the DOC's existing CVD and ADD rates during the course of each administrative review may also result in material adjustments to the condensed consolidated interim statement of income (loss).

13. Other Income, Net

During the three months ended March 31, 2024, CPPI received insurance proceeds of $15.2 million (three months ended March 31, 2023 - $2.4 million) related to operational downtime experienced at Northwood pulp mill in recent years.

14. Subsequent Event

On April 30, 2024, the Company announced that it had entered into an agreement with Resolute Forest Products Inc., an affiliate of Domtar Corporation, to purchase its El Dorado lumber manufacturing facility located in Union County, Arkansas, for $98.9 million (US$73.0 million), including working capital. The facility produces dimensional lumber and specialty wood products and is expected to increase Canfor's annual Southern Yellow Pine ("SYP") lumber capacity by 175 million board feet after $67.8 million (US$50.0 million) of planned upgrades. The transaction is anticipated to close later in 2024 following the completion of customary closing conditions.