KAP CORPORATION

Unaudited Condensed Interim Consolidated Financial Statements
For the three and six months ended June 28, 2025 and 2024

(Expressed in thousands of Canadian Dollars)

KAP CORPORATION
Unaudited Condensed Interim Consolidated Financial Statements
For the three and six months ended June 28, 2025 and 2024
(Expressed in thousands of Canadian Dollars)

Contents

KAP CORPORATION

Unaudited Condensed Interim Consolidated Financial Statements

Notice of no auditor review of the condensed interim consolidated financial statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of KAP Corporation (the "Company") have been prepared by and are the responsibility of the Company's management and approved by the Board of Directors.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada, for a review of condensed interim consolidated financial statements by an entity's auditor.

August 28, 2025

KAP CORPORATION

Unaudited Condensed Interim Consolidated Statements of Financial Position
As at June 29, 2025 and December 31, 2024
(Expressed in thousands of Canadian Dollars)

As at	Notes	June 28, 2025	December 31, 2024
Assets			
Current assets			
Cash and cash equivalents		**$ 4,158**	$ 6,467
Trade and other receivables		**10,139**	13,927
Inventory	5	**7,685**	13,953
Prepaid expenses and other current assets		**1,355**	1,072
		23,337	35,419
Non-current assets			
Property,plant and equipment		**7,199**	6,880
Pension plan in asset positions		**3,614**	4,494
Total assets		**$ 34,150**	$ 46,793
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 25,090**	$ 27,300
Other curent liabilties		**5,187**	4,538
Deferred financing benefit, current		**1,911**	1,430
		32,188	33,268
Non-current liabilities			
Long-term debt	6	**22,635**	14,124
Post-retirement obligations		**2,689**	2,774
Deferred financing benefit, long-term		**12,584**	8,452
Other long-term liabilities		**3,956**	3,942
Total liabilities		**74,052**	62,560
Shareholders' Deficiency			
Contributed surplus		**25,271**	25,271
Accumulated other comprehensive income		**576**	1,176
Accumulated deficit		**(65,749)**	(42,214)
Total shareholders' deficiency		**(39,902)**	(15,767)
Total liabilities and shareholders' deficiency		**$ 34,150**	$ 46,793
Going concern	2		

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

Approved on behalf of the Board of Directors:

(signed) "*Terry Skiffington*"

Chief Executive Officer

Director

KAP CORPORATION

Unaudited Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the three and six months ended June 29, 2025 and 2024
(Expressed in thousands of Canadian Dollars)

		Three months ended June 29,		Six months ended June 28,	
	Notes	**2025**	**2024**	**2025**	**2024**
Sales	10	**$ 24,342**	$ 28,068	**$ 52,734**	$ 52,283
Cost of sales	5	**(33,061)**	(34,116)	**(74,443)**	(67,977)
Selling, general and administrative	4	**(604)**	(604)	**(1,287)**	(1,230)
Other operating costs		**(489)**	23	**(581)**	188
Operating loss		**(9,812)**	(6,629)	**(23,577)**	(16,736)
Finance cost, net	6	**365**	-	**42**	-
Net loss before income taxes		**(9,447)**	(6,629)	**(23,535)**	(16,736)
Deferred tax recovery		**-**	7,159	**-**	3,774
Net income (loss)		**$ (9,447)**	$ 530	**(23,535)**	$ (12,962)
Other comprehensive income (loss)					
Defined benefit pension plans adjustments		**(127)**	-	**$ (600)**	$ -
Comprehensive income (loss)		**$ (9,574)**	$ 530	**$ (24,135)**	$ (12,962)
Basic and diluted (loss) per share		**(0.01)**	**-**	**(0.01)**	**-**
Basic and diluted (loss) weighted average number of common shares	7	**1,772,241**	-	**1,772,241**	**-**

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

KAP CORPORATION

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Deficiency
For the six months ended June 29, 2025 and 2024
(Expressed in thousands of Canadian Dollars)

	Notes	Number of shares	Contributed surplus	Contribution from former Parent	Equity reserve	AOCI [1]	Accumulated deficit	Total
Balance at January 1, 2025		**1,772,241**	**$ 25,271**	**$ -**	**$ -**	**$ 1,176**	**$ (42,214)**	**$ (15,767)**
Other comprehensive loss for the period, net of tax				-	-	(600)	-	(600)
Net loss for the period			-		-	-	(23,535)	(23,535)
Balance at June 28, 2025		**1,772,241**	**$ 25,271**	**$ -**	**$ -**	**$ 576**	**$ (65,749)**	**$ (39,902)**
Balance at January 1, 2024		**-**	**$ -**	**$ 25,271**	**$ -**	**$ -**	**$ -**	**$ 25,271**
Acquisition of Kap Paper Inc.	1, 7		25,271	(25,271)	-	-	-	-
Share based compensation			-	-	14	-	-	14
Net loss and comprehensive loss for the period			-	-	-	-	(12,962)	(12,962)
Balance at June 30, 2024		**-**	**25,271**	**$ -**	**$ 14**	**$ -**	**$ (12,962)**	**$ 12,323**

1. Accumulated Other Comprehensive Income

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

KAP CORPORATION

Unaudited Condensed Interim Consolidated Statements of Cash Flows
For the six months ended June 29, 2025 and 2024
(Expressed in thousands of Canadian Dollars)

	Notes	Six months ended June 29, 2025	2024
Cash provided by (used in):			
Operating activities			
Net loss		**$ (23,535)**	$ (12,962)
Adjustments for:			
Depreciation and amortization		**14**	922
Deferred tax recovery		**-**	(3,774)
Share based compensation		**-**	14
Financing costs, net		**149**	-
Inventory net reaslizable value adjustments		**(548)**	(548)
		(23,920)	(16,348)
Net changes in non-cash working capital:			
Trade and other receivables		**3,788**	1,168
Prepaid expenses and other current assets		**(283)**	(388)
Inventory		**6,816**	398
Account payable, accrued liabilities and other current liabilities		**(1,561)**	2,677
Pension contributions and use of provisions		**169**	-
Cash flows used in operating activities		**(14,991)**	(12,493)
Investing activity			
Purchase of property, plant and equipment		**(333)**	(269)
Cash flows used in investing activity		**(333)**	(269)
Financing activities			
Net transfers from Former Parent Company		**-**	6,159
Advances from long-term debt		**13,015**	9,000
Repayment of lease obligations		**-**	(27)
Cash flows provided by financing activities		**13,015**	15,132
Net change in cash		**(2,309)**	2,370
Cash - beginning of period		**6,467**	-
Cash - end of period		**$ 4,158**	$ 2,370
Supplemental cash flow information			
Interest expense		**$ 590**	$ -
Interest income		**$ 56**	$ -

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

1 NATURE OF OPERATIONS

Kap Corporation (“Kap”, "Kap Paper" or the “Company”) is engaged in the production and sale of a range of paper products, including newsprint, book grade paper and other specialty paper products. Its products are distributed across Canada, the United States and international markets, serving industries such as publishing, education, and commercial printing. Kap Paper operates an integrated pulp and paper mill and sources fibre from sustainably managed forests in Northern Ontario.

The Company was incorporated on January 1, 2024. The Company is authorized to issue an unlimited number of common shares. On January 1, 2024, 110 common shares with $10 par value were issued and outstanding to the GreenFirst Forest Products Inc. (the “Former Parent Company”)

The Company’s head office and registered records office is 1 Government Road, Kapuskasing, Ontario, P5N 2Y2.

Acquisition of Kap Paper

On January 1, 2024, the Company, acquired all of the 110 common shares of Kap Paper from the Former Parent Company for ten dollars in consideration. The acquisition of Kap Paper is an acquisition involving entities under common control in which all of the combining entities are ultimately controlled by the Former Parent Company, both before and after the acquisition. Acquisitions involving entities under common control are outside the scope of IFRS 3, *Business Combinations* .

The Company accounted for this common control transaction using book value accounting, based on the book values recognized in the financial statements of the Former Parent Company immediately prior to the acquisition. In addition, the Company has restated its comparative financial information to include the results of Kap Paper from January 1, 2023 to the date of the common control transaction.

Completion of the Spin-out of the Company

On November 4, 2024, the Former Parent Company completed its spin-out transaction of Kap Corporation. As a result of the spin-out, the Former Parent Company distributed the assets and liabilities associated with the Company at book value. The Former Parent Company closed the Plan of Arrangement that resulted in the distribution of 1,772,241 shares of Kap Corporation to the Former Parent Company’s shareholders on the basis of one common share of Kap Corporation for each ten common shares of the Former Parent Company.

2 BASIS OF PREPARATION

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis, except where otherwise stated in the applicable accounting policies.

These unaudited condensed interim consolidated financial statements present the assets, liabilities, revenue, expenses and cash flows attributable to the Company for the three and six months ended June 28, 2025 and June 29, 2024.

Statement of Compliance

These unaudited condensed interim consolidated financial statements for the three and six months ended June 28, 2025 and June 29, 2024 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* . The accounting policies and methods of computation adopted in the preparation of the unaudited condensed interim consolidated financial statements are consistent with those followed in the preparation of the Company's audited annual consolidated financial statements for the year ended December 31, 2024. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

These Financial Statements were approved by Kap Corporation’s Board of Directors ("Board") on August 28, 2025.

Going Concern

These condensed interim consolidated financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and meet its obligations in the normal course of business as they become due. For the six months ended June 30, 2025, the Company reported a net loss of $23,535 (2024 – $12,962) and cash used in operating activities of $14,991 (2024 – $12,493). The Company's working capital deficiency as of June 30, 2025 was $8,851 (December 31, 2024 –working capital surplus of $2,151).

The Company’s ability to continue as a going concern is dependent on its ability to realize positive cash flows from operations and/or obtain necessary financing. The ability to generate positive cash flows from operations is dependent on market prices for paper products, demand for the Company’s products and/or increases in productivity resulting in higher volumes produced and lower costs. As certain factors related to generating positive cash flows from operations and/or obtaining necessary financing are not under the Company’s control, there are material uncertainties related to these events and conditions that may cast significant doubt upon the Company’s ability to continue as a going concern.

2 BASIS OF PREPARATION (CONTINUED)

Going Concern (continued)

The Company is evaluating strategies and/or taking actions which include but are not limited to, implementing various productivity improvement plans and obtaining funding from the Government of Ontario (See Note 6). However, there are no assurances the Company will be successful in generating positive cash flows from operations and/or obtaining necessary financing.

These condensed consolidated interim financial statements do not include adjustments to the recoverability and classifications of recorded assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

Basis of Consolidation

These condensed interim consolidated financial statements include the accounts of the Company and the subsidiaries over which the Company exercises control. Control is achieved when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in these condensed consolidated interim financial statements from when control commences until the date on which control ceases. The financial statements of the subsidiaries are prepared for the same reporting period and apply the same accounting policies as the Company. All transactions between consolidated entities are eliminated in the consolidation of these condensed interim consolidated financial statements.

Set out below is a list of significant subsidiaries of the Company:

Subsidiary	**Jurisdiction**	**Direct or Indirect Ownership**	**Date of incorporation**
Kap Paper Inc.	Ontario, Canada	100%	1-Jan-2024

Use of Estimates and Judgments

The preparation of these condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses and disclosures at the date of these ccondensed interim consolidated financial statements. It also requires management to exercise judgment in the process of applying accounting policies. Significant areas requiring estimation and judgment include: assessing the net realizable value of inventory based on estimated selling prices, costs of completion, transportation costs and disposal costs; estimated useful lives of property, plant and equipment; recoverability of long-lived assets; decommissioning obligations; and employee future benefits. Actual amounts could differ materially from these and other estimates, the impact of which would be recorded in future periods.

Functional and Presentation Currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's and its subsidiary's functional currency.

3 NEW AND REVISED STANDARDS AND INTERPRETATIONS

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2025. The Company has adopted these pronouncements as of their effective date, and many are not applicable or do not have a significant impact on the Company and have been excluded.

The following amendments were issued but not yet effective. The Company will adopt these amendments as of their effective dates. The Company is currently assessing the impacts of adoption.

(a) Presentation and Disclosure in Financial Statements (IFRS 18)

In April 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements to improve reporting of financial performance. The new standards replaces IAS 1 Presentation of Financial Statements. IFRS 18 introduces new categories and required subtotals in the statement of profit and loss and also requires disclosure of management-defined performance measures. It also includes new requirements for the location, aggregation and disaggregation of financial information. The standard is effective for annual reporting periods beginning on or after January 1, 2027, including interim financial statements. Retrospective application is required and early adoption is permitted.

(Expressed in thousands of Canadian Dollars , unless otherwise noted)

3 NEW AND REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

(b) Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)

In May 2024, the IASB issued amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments – Disclosures. The amendments clarify the derecognition of financial liabilities and introduces an accounting policy option to derecognize financial liabilities that are settled through an electronic payment system. The amendments also clarify how to asses the contractual cash flow characteristics of financial assets that include environmental, social and governance (ESG)-linked features and other similar contingent features and the treatment of non-recourse assets and contractually linked instruments (CLIs). Further, the amendments mandate additional disclosures in IFRS 7 for financial instruments with contingent features and equity instruments classified at FVOCI. The amendments are effective for annual periods starting on or after January 1, 2026. Retrospective application is required and early adoption is permitted.

4 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Six months ended	
	28-Jun-25	**29-Jun-24**	**28-Jun-25**	**29-Jun-24**
Salaries and benefits	**$ 401**	$ 552	**$ 1,017**	$ 1,116
Third party fees and other services	**32**	31	**68**	69
Administration, office and facility costs	**171**	21	**203**	45
Total selling, general and administrative expenses	**$ 604**	$ 604	**$ 1,287**	$ 1,230

5 INVENTORY

As at	**28-Jun-25**	**31-Dec-24**
Finished goods	**$ 2,362**	$ 8,842
Work-in-process	**142**	140
Raw materials	**2,116**	2,194
Manufacturing and maintenance supplies	**3,065**	2,777
Total inventory	**$ 7,685**	$ 13,953

For the three and six months ended June 28, 2025, the Company recorded an inventory valuation write-down of $464 and $548 respectively (three and six months ended June 30, 2024 - $73 and $548) to reflect net realizable value being lower than cost.

6 LONG-TERM DEBT

During the year ended December 31, 2024, the Company entered into a $24.0 million term loan agreement with the Province of Ontario (the “Term Loan”). Under the agreement, the Company received $9.0 million upon finalization of the agreement on June 21, 2024, with the balance of $15.0 million received on August 19, 2024. The Term Loan has an 8-year term, with a maturity date of June 18th, 2032 and mandatory annual repayments of principal commencing after June 18, 2027. The Term Loan has an initial annual interest rate of 4.07%, calculated and payable quarterly. Any interest paid is refunded to the Company at the end of each fiscal year, within 60 days, as long as the Company remains in compliance with all covenants and does not trigger an event of default under the Term Loan.

The Term Loan is secured by the assets of Kap Paper Inc. under a general security agreement and a mortgage over the real property owned by Kap Paper Inc.

On January 28, 2025 the Company amended the Term Loan agreement with the Province of Ontario under which an additional $10.0 million in principal was granted for a total prinicpal amount of $34.0 million. The amendment also extended the maturity date to February 1, 2033 and extended the mandatory annual principal repayment date to February 1, 2028. All the other terms remain the same as the previously issued $24.0 million. The additional financing is secured by the assets of Kap Paper Inc. under a general security agreement and a mortgage over the real property owned by Kap Paper Inc.

On May 9, 2025 the Company further amended the Term Loan agreement with the Province of Ontario under which an additional $10.5 million in principal was granted for a total principal amount of $44.5 million. Under the amended agreement, the Company will receive the additional $10.5 million in three tranches. The first tranche of $3.015 million was received on May 31, 2025 and the remaining two tranches will be received at a later date, based on working capital requirements, as long as the Company remains in compliance with all covenants and does not trigger an event of default under the Term Loan. All the other terms remain the same as the previously issued $34.0 million. The additional financing is secured by the assets of Kap Paper Inc. under a general security agreement and a mortgage over the real property owned by Kap Paper Inc.

(Expressed in thousands of Canadian Dollars , unless otherwise noted)

6 LONG-TERM DEBT (CONTINUED)

The Company recorded a deferred financing benefit related to the Term Loan as it was determined to have a below-market interest rate. The deferred financing benefit represents the difference between the present value of the loan at a market rate of 10% and the face value of the loan. This government assistance benefit is being amortized as a reduction to interest expense over the term of the loan using the effective interest method.

The extension of the Term Loan's maturity date did not result in a substantial modification of the existing terms of the Term Loan and accordingly was accounted for as a modification.

As at June 30, 2025, the Company was in compliance with all covenants under the Term Loan.

The continuity of the Company's outstanding debt is as follows:

As at		28-Jun-25		30-Jul-25
Balance, beginning of the period	**$**	**14,124**	$	-
Proceeds from the Term Loan		**13,015**		9,000
Deferred financing benefit		**(5,320)**		(3,953)
Accretion expense for the period		**816**		119
Total long-term debt	**$**	**22,635**	$	5,166

For the three and six months ended June 28, 2025, the Company recorded deferred financing income of $415 and $707 respectively (three and six months ended June 29 2024 - $nil), which has been recorded as a credit to financing expenses.. In addition, for the three and six months ended June 28, 2025, the Company received interest refund from the Province of Ontario of $nil and $733 respectively (three and six months ended June 29 2024 - $nil), which has been recorded as a credit to financing expenses.

Contractual minimum principal repayments related to the Term Loan are due as follows:

Less than 1 year	**$**	**-**
1-3 years		6,169
Thereafter		30,846
Total	**$**	**37,015**

7 SHAREHOLDERS' EQUITY

Authorized, Issued, and Outstanding

As at June 28, 2025, an unlimited number of common shares were authorized, and 1,772,241 common share were issued and outstanding.

As part of the spin-out transaction that took place on November 4, 2024, the Company issued 1,772,241 common shares to the shareholders of the Former Parent Company on the basis of one common share of Kap Corporation for each ten common shares of the Former Parent Company, for $nil consideration.

The Company's Contributed Surplus on January 1, 2024 is comprised of the Net Parent Investment in the Company as at December 31, 2023.

8 LOSS PER SHARE

	Three months ended				Six months ended			
		28-Jun-25		29-Jun-24		28-Jun-25		29-Jun-24
Net loss	**$**	**9,447**	$	6,629	**$**	**23,535**	$	12,962
Basic and diluted weighted average number of common shares		**1,772,241**		-		**1,772,241**		-
Basic and diluted loss per share	**$**	**0.01**	$	-	**$**	**0.01**	$	-

(Expressed in thousands of Canadian Dollars , unless otherwise noted)

9 RELATED PARTY TRANSACTIONS

Key management personnel compensation
The Company identified key management personnel is comprised of members of the senior leadership team. The Company's key management personnel compensation is comprised of the following:

	Three months ended		Six months ended	
As at	**28-Jun-25**	**29-Jun-24**	**28-Jun-25**	**29-Jun-24**
Salaries, benefits and fees	$ 132,987	$ -	$ 266,723	$ -
Total	$ 132,987	$ -	$ 266,723	$ -

10 GEOGRAPHICAL INFORMATION

The Company operates in one business segment that manufactures and markets paper-grade products used to print newspapers, advertising materials, food service bags and other related paper products, with related corporate activities.

For the three and six months ended June 30, 2025, there were two customers that represented 10% or more of total net sales for the Company (June 30, 2024 - two).

Geographical net sales are as follows:

	Three months ended		Six months ended	
As at	**28-Jun-25**	**29-Jun-24**	**28-Jun-25**	**29-Jun-24**
Canada	**$ 98**	$ 2,458	**$ 430**	$ 4,657
United States and Other	**24,244**	25,610	**52,304**	47,626
Total	**$ 24,342**	$ 28,068	**$ 52,734**	$ 52,283

11 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The fair value of cash and cash equivalents, trade and other receivables, accounts payable and other current liabilities approximates the carrying value due to their short-term nature. The carrying amount of the long-term debt is considered to be a reasonable approximation of the fair value as a result of the discounting based on a market rate of interest.

The Company's financial instruments expose the Company to credit, liquidity and market risk.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from the Company's cash deposits and receivables from customers.

The Company's exposure to credit risk with respect to accounts receivable is dependent upon individual characteristics of each customer. Each new customer is assessed for creditworthiness before payment and delivery terms and conditions are offered, with such review encompassing any external ratings, and bank and other references. Purchase limits are established for each customer and are regularly reviewed. The Company does not require specific credit guarantees for its customers and mitigates the risk of potential losses through the active monitoring of its receivables, considering past experience with its customer base, current economic conditions and any known specific customer issues.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for expected credit losses based on its best estimate of expected credit losses. For the three and six months ended June 28, 2025, a $nil (three and six months ended June 29, 2024 - $nil) allowance for expected credit losses was recorded.

The carrying amount of accounts receivable, excluding value added tax of $7.6 million represents the maximum credit exposure for its accounts receivables at June 28, 2025 (December 31, 2024 - $11.4 million).

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. With the exception of the long-term loan (See Note 6) and other long-term liabilities, all financial liabilities are due within 1 year as at June 28, 2025. The total undiscounted cash flows of $2,928 relating to the long-term liabilities has a maturity of greater than three years.

11 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market Risk

Market risk is the risk that changes in market prices will affect the Company's earnings or the value of its financial instruments. Market risk is comprised of commodity price risk and interest rate risk. The objective of market risk management is to manage and control exposures within acceptable limits while maximizing returns. The Company is exposed to market risk primarily through changes in commodity prices and the" United States ("US") dollar to Canadian dollar exchange rate.

Commodity Prices

The Company's products are commodities that are widely available from other producers; because these products have few distinguishing qualities from producer to producer, competition is based primarily on price, which is determined by supply relative to demand. The Company attempts to minimize the economic impact of these changes through continuously looking for cost reductions in its operations and employing flexible manufacturing schedules that can increase or decrease in response to supply and demand fluctuations. The Company currently does not hedge its exposure to commodity prices.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. An immaterial amount of interest rate exposure exists in respect of cash balances on the statement of financial position. The Company has borrowings under its Term Loan which is a fixed annual interest rate of 4.07% at June 28, 2025, as such there is no standalone interest rate risk for the Term Loan.

Currency Risk

The Company is exposed to foreign exchange risk on revenues and expenditures denominated in foreign currencies, principally US dollars. the Company's US dollar denominated sales accounts for a significant volume of its sales. The majority of the Company's expenditures are in Canadian dollars.

The Company is exposed to currency risk on accounts receivable and accounts payable balances.

As at June 28, 2025, the portion of the Company's monetary assets and liabilities held in US dollars are as follows:

As at (in thousands of US dollars)		**28-Jun-25**		**31-Dec-24**
Cash and cash equivalents	**$**	**2,709**	$	4,170
Accounts receivable		**4,067**		5,750
Accounts payable and other liabilities		**(819)**		(964)
Net monetary assets in US Dollars	**$**	**5,957**	$	8,956

Based on the US dollar statement of financial position exposure at June 28, 2025, with other variables unchanged, if the Canadian dollar were to weaken against the US dollar by 1%, relative to the rate at June 28, 2025, the net loss in the condensed interim consolidated statement of loss and comprehensive loss would increase by approximately $0.08 million. If the Canadian dollar were to strengthen against the US dollar by 1%, relative to the rate at June 28, 2025, the net loss in the condensed interim consolidated statement of loss and comprehensive loss would decrease by approximately $0.08 million.

12 CAPITAL MANAGEMENT

The Company manages its capital through detailed operating and capital expenditure budgeting combined with frequent forecasting. The Company's strategic capital expenditure decisions are predicated on adequate cash flow from operations and paper mill dependencies. The Company defines its capital as its shareholder's equity plus net debt, i.e. total debt outstanding less cash and cash equivalents. In order to secure the additional capital necessary to pursue these objectives, the Company may attempt to raise additional funds through the issuance of equity or additional debt or by securing strategic partners. The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during six month period ended June 28, 2025.