2022

QUARTER THREE

INTERIM REPORT

FOR THE THREE MONTHS ENDED SEPT. 30, 2022

CANFOR CORPORATION

2	Message to Shareholders
5	Management’s Discussion and Analysis
19	Condensed Consolidated Balance Sheets
20	Condensed Consolidated Statements of Income
21	Condensed Consolidated Statements of Other Comprehensive Income (Loss)
22	Condensed Consolidated Statements of Changes in Equity
23	Condensed Consolidated Statements of Cash Flows
24	Notes to the Condensed Consolidated Interim Financial Statements

To Our Shareholders

Canfor Corporation ("The Company" or "Canfor") reported its third quarter of 2022 results:

Overview

- Q3 2022 reported operating income of $108.6 million; quarterly sales of $1.7 billion
- Downward pressure on global lumber market fundamentals and pricing following highs earlier in the year
- Reduced Western Canadian operating schedules & European seasonal downtime led to lower shipments
- Strong global pulp fundamentals & improved pulp production following capital-related downtime
- Shareholder net income of $87.4 million, or $0.71 per share

Financial Results

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

(millions of Canadian dollars, except per share amounts)	Q3 2022	Q2 2022	YTD 2022	Q3 2021	YTD 2021
Sales	**$ 1,666.4**	$ 2,173.1	**$ 6,053.4**	$ 1,676.6	$ 6,113.6
Reported operating income before amortization	**$ 211.5**	$ 630.3	**$ 1,672.5**	$ 425.4	$ 2,256.7
Reported operating income	**$ 108.6**	$ 531.6	**$ 1,382.1**	$ 331.0	$ 1,974.9
Adjusted operating income before amortization[1]	**$ 300.0**	$ 630.8	**$ 1,760.4**	$ 425.1	$ 2,254.2
Adjusted operating income[1]	**$ 197.1**	$ 532.1	**$ 1,470.0**	$ 330.7	$ 1,972.4
Net income[2]	**$ 87.4**	$ 373.8	**$ 995.2**	$ 210.0	$ 1,364.7
Net income per share, basic and diluted[2]	**$ 0.71**	$ 3.02	**$ 8.05**	$ 1.68	$ 10.91
Adjusted net income[1,2]	**$ 98.5**	$ 379.7	**$ 1,007.2**	$ 209.0	$ 1,364.4
Adjusted net income per share, basic and diluted[1,2]	**$ 0.80**	$ 3.07	**$ 8.15**	$ 1.68	$ 10.91

[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.

For the third quarter of 2022, the Company reported operating income of $108.6 million, down $423.0 million from the operating income of $531.6 million reported for the second quarter of 2022, largely reflecting a decline in lumber segment earnings, slightly offset by improved pulp and paper segment results.

Results in the current quarter include an $88.5 million net inventory write-down, principally driven by the lumber segment, as well as a net duty recovery of $97.6 million (US$73.0 million) resulting from the finalization of countervailing ("CVD") and anti-dumping duty ("ADD") rates applicable to the third period of review ("POR3").

Reported results in the lumber segment decreased $450.5 million quarter-over-quarter principally reflecting significant Western Spruce/Pine/Fire ("SPF") and Southern Yellow Pine ("SYP") US-dollar benchmark pricing declines in the current period, with the average North American Random Lengths Western SPF 2x4 2&Btr price down US$286 per Mfbm, or 33%, and the average SYP East 2x6 #2 down US$97 per Mfbm, or 17%, and notably lower market pricing in Europe. This downward pricing pressure was coupled with market-related increases in BC log costs as well as substantially lower production and shipment volumes at the Company's Western Canadian and European lumber operations, which contributed to a considerable uplift in unit manufacturing costs.

In Western Canada, despite an improvement in transportation networks through the current period, reduced operating schedules across the Company's BC sawmills, which commenced in the second quarter, continued well into the third quarter. In addition, as the third quarter progressed, declining lumber prices and high log costs led to market-driven curtailments at most of the Company's BC sawmills late September. Combined, these capacity reductions reduced production by approximately 200 million board feet during the period. For the Company's European operations, reduced production in the current quarter was attributable to regular summer downtime.

North American market fundamentals continued to trend downwards throughout much of the current quarter, as rising interest rates alongside high levels of inflation weighed on housing affordability and led to an 11% decrease in US new home construction activity during the period, particularly for single-family units. Despite general economic uncertainty and declines in US housing starts, demand in the North American repair and remodeling sector remained strong throughout the quarter supported by lower-cost building materials and an aged housing stock.

Offshore lumber demand and prices in Asia showed continued weakness in the third quarter of 2022. In Japan and Korea, reduced consumption was coupled with increased inventory levels in those regions. In China, a slight pick-up in activity was outweighed by the impacts of a severe summer heatwave which caused factory closures and lowered lumber consumption. In Western Europe and Scandinavia, lumber demand and pricing declined sharply as weakness in the “do-it-yourself” sector late in the previous quarter persisted through the current period as inflationary cost pressures and high energy costs reduced consumer spending.

Results in the pulp and paper segment largely reflected materially higher NBSK pulp unit sales realizations, and to a lesser extent, a 2 cent, or 2% weaker Canadian dollar.

Following the completion of capital-related downtime in the first half of 2022, pulp production was up 4% from the previous quarter, as NBSK pulp productivity steadily improved as the quarter progressed. Consistent with the prior period, however, NBSK pulp production in the current quarter continued to be limited to available transportation. Concurrently, logistics-related downtime at Canfor Pulp Product Inc.’s (“CPPI”) Taylor Bleached Chemi-Thermo Mechanical Pulp (“BCTMP”) mill (“Taylor”), which commenced in the first quarter of 2022 and continued throughout the second and third quarters, reduced production by approximately 60,000 tonnes in the current period. In addition, NBSK pulp production in the current quarter included the completion in mid-July of CPPI’s Northwood NBSK pulp mill’s (“Northwood”) scheduled maintenance outage (approximately 16,000 tonnes) as well as the commencement in September of CPPI’s Intercontinental NBSK pulp mill’s (“Intercon”) planned maintenance downtime (approximately 6,000 tonnes in the third quarter and a further 6,000 tonnes in October).

Looking ahead, global lumber market fundamentals are anticipated to face significant downward pressure through the balance of 2022. Decreasing housing affordability, tied to persistent inflation and interest rates, is projected to continue to reduce new home construction activity in North America while the repair and remodeling sector is forecast to experience some softness in the fourth quarter, albeit to a lesser extent, driven principally by seasonal impacts. Offshore lumber demand in Asia is estimated to see ongoing weakness as high inventories in the region persist through the balance of the year. European lumber pricing is anticipated to continue to weaken through the fourth quarter, largely driven by subdued activity in the repair and remodeling segment in that region.

As a result of the challenging market conditions, results in the fourth quarter are forecast to reflect the continuation of reduced operating schedules across the Company’s Western Canadian sawmills, as well as some reduced shifts at the Company’s European operations, which, in the case of Europe, may be less than originally anticipated. The Company will continue to closely monitor the external challenges impacting the business, including global lumber market conditions, supply chain networks, as well as the availability of economically viable fibre in BC, and will adjust operating rates accordingly through the balance of 2022.

Looking forward, global softwood pulp markets are projected to soften somewhat through the fourth quarter of 2022, reflecting tempered pulp demand, particularly from China.

Results in the fourth quarter are also anticipated to reflect the continued uncertainties associated with lingering supply chain challenges and the related pressures on CPPI’s operations and shipments. As previously disclosed, it is projected that a restart of Taylor will not be contemplated until such time as there is a return to more normal transportation service levels to all of CPPI’s pulp and paper mills.

CPPI’s results in the fourth quarter of 2022 will see the continuation of Intercon’s scheduled maintenance outage into October, with an estimated 6,000 tonnes of reduced NBSK pulp production. In addition, NBSK pulp production in the fourth quarter will reflect a temporary curtailment at Intercon due to a lack of available economic fibre (approximately 16,000 tonnes). The current weakness in lumber markets may result in extended sawmill curtailments in the BC Interior, with the risk that lower volumes of sawmill residual chips available to pulp mills may cause further downtime at CPPI’s operations. CPPI will continue to closely monitor the supply chain challenges as well as the availability of economically viable chip supply, and will adjust future operating plans accordingly, through the balance of 2022.

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)	**Q3 2022**	Q2 2022	**YTD 2022**	Q3 2021	YTD 2021
Reported operating income	**$ 108.6**	$ 531.6	**$ 1,382.1**	$ 331.0	$ 1,974.9
Inventory write-down, net	**$ 88.5**	$ 0.5	**$ 87.9**	$ 3.5	$ 1.3
Restructuring, mill closure and other items, net	**$ -**	$ -	**$ -**	$ (3.8)	$ (3.8)
Adjusted operating income	**$ 197.1**	$ 532.1	**$ 1,470.0**	$ 330.7	$ 1,972.4
Amortization	**$ 102.9**	$ 98.7	**$ 290.4**	$ 94.4	$ 281.8
Adjusted operating income before amortization	**$ 300.0**	$ 630.8	**$ 1,760.4**	$ 425.1	$ 2,254.2

After-tax impact, net of non-controlling interests (millions of Canadian dollars)	**Q3 2022**	Q2 2022	**YTD 2022**	Q3 2021	YTD 2021
Net income	**$ 87.4**	$ 373.8	**$ 995.2**	$ 210.0	$ 1,364.7
Foreign exchange (gain) loss on term debt	**$ 10.6**	$ 4.9	**$ 12.5**	$ 2.6	$ (5.7)
(Gain) loss on derivative financial instruments	**$ 0.5**	$ 1.0	**$ (0.5)**	$ (0.8)	$ 8.2
Restructuring, mill closure and other items, net	**$ -**	$ -	**$ -**	$ (2.8)	$ (2.8)
Adjusted net income[3]	**$ 98.5**	$ 379.7	**$ 1,007.2**	$ 209.0	$ 1,364.4

[3] Attributable to equity shareholders of the Company.

Canfor Corporation
Third Quarter 2022
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 September 30, 2022 relative to the quarters ended June 30, 2022 and September 30, 2021, and the financial position of the Company at September 30, 2022. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended September 30, 2022 and 2021, as well as the 2021 annual MD&A and the 2021 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2021 (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 before Amortization and Impairment, Adjusted Operating Income and Adjusted Operating Income before Amortization 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 (calculated as Shareholder Net Income less specific items affecting comparability with prior periods – for the full calculation refer to the "Selected Quarterly Financial Information" section) and Adjusted Shareholder Net Income per Share (calculated as Adjusted Shareholder Net Income divided by the weighted average number of shares outstanding during the period). Operating Income before Amortization and Impairment, Adjusted Operating Income, Adjusted Operating Income before Amortization, Adjusted Shareholder Net Income and Adjusted Shareholder Net Income per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, Canfor's Operating Income before Amortization and Impairment, Adjusted Operating Income, Adjusted Operating Income before Amortization, Adjusted Shareholder Net Income and Adjusted Shareholder Net Income per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of these measures to those reported in accordance with IFRS are included in the "Non-IFRS Financial Measures" section of this MD&A, with details surrounding Operating Income before Amortization and Impairment included under "Selected Quarterly Financial Information". Throughout this discussion, reference is made to the current quarter, which refers to the results for the third quarter of 2022.

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 October 27, 2022.

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.

THIRD QUARTER 2022 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except ratios)	Q3 2022	Q2 2022	YTD 2022	Q3 2021	YTD 2021
Operating income (loss) by segment:					
Lumber	**$ 101.6**	$ 552.1	**$ 1,436.7**	$ 326.1	$ 1,933.3
Pulp and Paper	**$ 19.2**	$ (8.1)	**$ (14.9)**	$ 15.8	$ 71.7
Unallocated and Other	**$ (12.2)**	$ (12.4)	**$ (39.7)**	$ (10.9)	$ (30.1)
Total operating income	**$ 108.6**	$ 531.6	**$ 1,382.1**	$ 331.0	$ 1,974.9
Add: Amortization[1]	**$ 102.9**	$ 98.7	**$ 290.4**	$ 94.4	$ 281.8
Total operating income before amortization	**$ 211.5**	$ 630.3	**$ 1,672.5**	$ 425.4	$ 2,256.7
Add (deduct):					
Working capital movements	**$ 185.6**	$ 210.5	**$ 108.4**	$ 30.8	$ (235.4)
Defined benefit plan contributions, net	**$ (3.0)**	$ (3.0)	**$ (9.8)**	$ (3.3)	$ (11.3)
Income taxes paid, net	**$ (98.9)**	$ (113.0)	**$ (419.9)**	$ (43.7)	$ (225.5)
Adjustment to accrued duties	**$ (105.6)**	$ (45.3)	**$ (201.6)**	$ 27.0	$ 39.4
Other operating cash flows, net[2]	**$ (5.2)**	$ (2.1)	**$ 16.2**	$ (15.8)	$ (4.8)
Cash from operating activities	**$ 184.4**	$ 677.4	**$ 1,165.8**	$ 420.4	$ 1,819.1
Add (deduct):					
Capital additions, net	**$ (138.8)**	$ (113.1)	**$ (333.2)**	$ (128.5)	$ (252.9)
Finance expenses paid	**$ (4.4)**	$ (6.4)	**$ (14.2)**	$ (3.5)	$ (17.4)
Repayment of term debt, net	**$ (0.1)**	$ (0.1)	**$ (0.3)**	$ (0.3)	$ (414.9)
Share purchases	**$ (2.4)**	$ (40.5)	**$ (48.6)**	$ (10.9)	$ (18.9)
Acquisition of Millar Western	**$ -**	$ (15.9)	**$ (434.0)**	$ -	$ -
Acquisition of V-Timber	**$ -**	$ -	**$ (14.3)**	$ -	$ -
Phased acquisition of Elliott	**$ -**	$ -	**$ -**	$ -	$ (38.2)
Distributions to non-controlling interests	**$ (1.7)**	$ (60.9)	**$ (62.8)**	$ (4.5)	$ (14.8)
Foreign exchange gain (loss) on cash and cash equivalents	**$ 34.0**	$ (8.2)	**$ 1.2**	$ 10.8	$ 4.0
Other, net[2]	**$ (18.5)**	$ (1.2)	**$ (26.3)**	$ (4.3)	$ (28.2)
Change in cash / operating loans	**$ 52.5**	$ 431.1	**$ 233.3**	$ 279.2	$ 1,037.8
ROIC – Consolidated period-to-date[3]	**2.4%**	12.6%	**34.1%**	8.9%	56.9%
Average exchange rate (US$ per C$1.00)[4]	**$ 0.766**	$ 0.783	**$ 0.779**	$ 0.794	$ 0.799
Average exchange rate (SEK per C$1.00)[4]	**8.082**	7.708	**7.708**	6.865	6.781

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

Analysis of Specific Material Items Affecting Comparability of Shareholder Net Income

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	Q3 2022	Q2 2022	YTD 2022	Q3 2021	YTD 2021
Shareholder net income, as reported	**$ 87.4**	$ 373.8	**$ 995.2**	$ 210.0	$ 1,364.7
Foreign exchange (gain) loss on term debt	**$ 10.6**	$ 4.9	**$ 12.5**	$ 2.6	$ (5.7)
(Gain) loss on derivative financial instruments	**$ 0.5**	$ 1.0	**$ (0.5)**	$ (0.8)	$ 8.2
Restructuring, mill closure and other items, net	**$ -**	$ -	**$ -**	$ (2.8)	$ (2.8)
Net impact of above items	**$ 11.1**	$ 5.9	**$ 12.0**	$ (1.0)	$ (0.3)
Adjusted shareholder net income[5]	**$ 98.5**	$ 379.7	**$ 1,007.2**	$ 209.0	$ 1,364.4
Shareholder net income per share (EPS), as reported	**$ 0.71**	$ 3.02	**$ 8.05**	$ 1.68	$ 10.91
Net impact of above items per share	**$ 0.09**	$ 0.05	**$ 0.10**	$ -	$ -
Adjusted shareholder net income per share[5]	**$ 0.80**	$ 3.07	**$ 8.15**	$ 1.68	$ 10.91

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

For the third quarter of 2022, the Company reported operating income of $108.6 million, down $423.0 million from the operating income of $531.6 million reported for the second quarter of 2022, largely reflecting a decline in lumber segment earnings, slightly offset by improved pulp and paper segment results.

Results in the current quarter include an $88.5 million net inventory write-down, principally driven by the lumber segment, as well as a net duty recovery of $97.6 million (US$73.0 million) resulting from the finalization of countervailing ("CVD") and anti-dumping duty ("ADD") rates applicable to the third period of review ("POR3").

Reported results in the lumber segment decreased $450.5 million quarter-over-quarter principally reflecting significant Western Spruce/Pine/Fire ("SPF") and Southern Yellow Pine ("SYP") US-dollar benchmark pricing declines in the current period, with the average North American Random Lengths Western SPF 2x4 2&Btr price down US$286 per Mfbm, or 33%, and the average SYP East 2x6 #2 down US$97 per Mfbm, or 17%, and notably lower market pricing in Europe. This downward pricing pressure was coupled with market-related increases in British Columbia ("BC") log costs, as well as substantially lower production and shipment volumes at the Company's Western Canadian and European lumber operations, which contributed to a considerable uplift in unit manufacturing costs.

Results in the pulp and paper segment largely reflected materially higher Northern Bleached Softwood Kraft ("NBSK") pulp unit sales realizations, and to a lesser extent, a 2 cent, or 2% weaker Canadian dollar.

Compared to the third quarter of 2021, reported operating income was down $222.4 million from the operating income of $331.0 million recognized in the comparative period, consisting of a $224.5 million decrease in lumber segment earnings and a $3.4 million increase in pulp and paper segment results.

Lower earnings in the lumber segment were principally driven by a significant reduction in Western SPF and European lumber unit sales realizations, mitigated somewhat by a material increase in SYP lumber unit sales realizations quarter-over-quarter. These factors were combined with reduced production in the current period, significantly higher unit manufacturing and product costs, and a 18% stronger Canadian dollar (versus the Swedish Krona ("SEK")), offset in part by a 3 cent, or 4%, weaker Canadian dollar (versus the US-dollar).

The improvement in pulp and paper results principally reflected a substantial uplift in average NBSK pulp unit sales realizations, moderately higher paper unit sales realizations and a weaker Canadian dollar in the current period, offset in part by a decline in pulp production and shipments, as well as higher pulp unit manufacturing costs quarter-over-quarter.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q3 2022	Q2 2022	YTD 2022	Q3 2021	YTD 2021
Sales[6]	**$ 1,358.1**	$ 1,884.3	**$ 5,236.1**	$ 1,377.9	$ 5,218.5
Operating income before amortization[6]	**$ 176.6**	$ 626.6	**$ 1,654.5**	$ 398.1	$ 2,149.4
Operating income[6]	**$ 101.6**	$ 552.1	**$ 1,436.7**	$ 326.1	$ 1,933.3
Inventory write-down	**$ 89.6**	$ -	**$ 89.6**	$ -	$ -
Restructuring, mill closure and other items, net	**$ -**	$ -	**$ -**	$ (3.8)	$ (3.8)
Adjusted operating income	**$ 191.2**	$ 552.1	**$ 1,526.3**	$ 322.3	$ 1,929.5
Average Western SPF 2x4 #2&Btr lumber price in US$[7]	**$ 580**	$ 866	**$ 907**	$ 494	$ 936
Average Western SPF 2x4 #2&Btr lumber price in Cdn$[7,9]	**$ 757**	$ 1,106	**$ 1,164**	$ 622	$ 1,171
Average SYP 2x4 #2 lumber price in US$[8]	**$ 722**	$ 769	**$ 954**	$ 533	$ 952
Average SYP 2x4 #2 lumber price in Cdn$[8,9]	**$ 943**	$ 983	**$ 1,225**	$ 671	$ 1,191
Average SYP 2x6 #2 lumber price in US$[8]	**$ 459**	$ 556	**$ 706**	$ 407	$ 752
Average SYP 2x6 #2 lumber price in Cdn$[8,9]	**$ 599**	$ 710	**$ 906**	$ 513	$ 940
US housing starts (thousand units SAAR)[10]	**1,461**	1,647	**1,609**	1,569	1,581
Production – Western SPF lumber (MMfbm)[11]	**504**	658	**1,814**	550	1,984
Production – SYP lumber (MMfbm)[11]	**401**	409	**1,230**	413	1,262
Production – European lumber (MMfbm)[11]	**272**	366	**1,014**	316	1,014
Shipments – Western SPF lumber (MMfbm)[12]	**595**	681	**1,861**	572	1,944
Shipments – SYP lumber (MMfbm)[12]	**417**	423	**1,239**	440	1,261
Shipments – European lumber (MMfbm)[12]	**299**	424	**1,146**	306	1,102

[6] Q3 2022 includes sales of $340.0 million, operating income of $41.6 million, and operating income before amortization of $57.4 million from European operations (Q2 2022 – sales of $506.6 million, operating income of $173.1 million, and operating income before amortization of $189.7 million; Q3 2021 – sales of $432.3 million, operating income of $167.8 million, and operating income before amortization of $186.5 million). Operating income from European operations in Q3 2022 includes $8.9 million in incremental amortization driven by the purchase price allocation at acquisition (Q2 2022 - $9.3 million; Q3 2021 - $10.5 million).
[7] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[8] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[9] Average lumber prices in Cdn$ 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.
[10] Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").
[11] Excluding production of trim blocks.
[12] 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 market fundamentals continued to trend downwards throughout much of the current quarter, as rising interest rates alongside high levels of inflation weighed on housing affordability. As a result, for the quarter overall, US housing starts averaged 1,461,000 units on a seasonally adjusted basis for the current quarter, down 11% from the previous quarter, reflecting a 16% decrease in single-family starts and a 2% decrease in multi-family starts. Despite general economic uncertainty and declines in US housing starts, demand in the North American repair and remodeling sector remained strong throughout the quarter supported by lower-cost building materials and an aged housing stock. In Canada, housing starts averaged 283,000 units on a seasonally adjusted basis in the current period, up 5% from the second quarter of 2022, largely reflecting increased construction of multi-family units, particularly in Ontario.

Offshore lumber demand and prices in Asia showed continued weakness in the third quarter of 2022. In Japan and Korea, reduced consumption was coupled with increased inventory levels in those regions. In China, a slight pick-up in activity was outweighed by the impacts of a severe summer heatwave which caused factory closures and lowered lumber consumption. In Western Europe and Scandinavia, lumber demand and pricing declined sharply as weakness in the "do-it-yourself" sector late in the previous quarter persisted through the current period as inflationary cost pressures and high energy costs reduced consumer spending.

Sales

Sales revenues for the lumber segment for the third quarter of 2022 were $1,358.1 million, compared to $1,884.3 million in the previous quarter and $1,377.9 million for the third quarter of 2021. The 28% decrease in sales revenue over the prior quarter reflected a substantial decline in global lumber market prices, coupled with a 14% decrease in shipments, principally driven by lower volumes in Western Canada and Europe. The benefit of a 2 cent, or 2%, weaker Canadian dollar (versus the US-dollar) in the current quarter was offset in part by a 4 cent, or 5%, stronger Canadian dollar (versus the SEK). Sales revenues were broadly in line with the third quarter of 2021, as a considerable uplift in SYP US-dollar pricing and a weaker Canadian dollar (versus the US-dollar) was met with a notable decline in Western SPF and European lumber unit sales realizations and a stronger Canadian dollar (versus the SEK).

Total lumber shipments, at 1.31 billion board feet, were 14% lower than the previous quarter, principally due to reduced production in Western Canada and Europe. Shipments in the US South were relatively comparable quarter-over-quarter.

Total lumber shipments were in line with the third quarter of 2021. In Western Canada, improved BC transportation conditions quarter-over-quarter and the incremental benefit of shipments attributable to the acquisition of Millar Western Forest Product Ltd.'s ("Millar Western") solid wood operations earlier in 2022, more than offset the impact of production downtime in both periods. Lower shipment volumes in the US South and Europe in the current period were primarily associated with reduced production, and, with respect to the latter, the timing of offshore shipments.

Following significant declines experienced in the prior quarter, the average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price continued to drop through most of the current period, ending the quarter at a low of US$475 per Mbfm. For the current quarter overall, the North American Random Lengths Western SPF 2x4 #2&Btr price averaged US$580 per Mfbm, down US$286 per Mfbm, or 33%, from the previous quarter. The Company's Western SPF unit sales realizations primarily reflected the sharp drop in US-dollar benchmark pricing, moderated in part by a favourable timing lag in shipments (versus orders) and a weaker Canadian dollar (versus the US-dollar).

The North American Random Lengths SYP East 2x6 #2 price experienced similar movements to Western SPF through the current quarter. Although pricing recovered slightly through September, the SYP East 2x6 #2 price averaged US$459 per Mfbm for the current quarter, down US$97 per Mfbm, or 17%, from the previous quarter. The SYP East 2x4 #2 price averaged US$722 per Mfbm for the current quarter, down US$47 per Mfbm, or 6%, from the previous quarter. The Company's SYP lumber unit sales realizations reflected this downward trend in SYP benchmark pricing as well as the impact of more pronounced pricing declines for certain wider-width dimension products.

The Company's European lumber unit sales realizations were moderately lower than the previous quarter due to ongoing downward pressure on European market pricing, and, in part, the stronger Canadian dollar (versus the SEK).

Compared to the third quarter of 2021, the Company's lumber unit sales realizations were down significantly in Western Canada and Europe, and notably higher in the US South. In Western Canada, despite the US$86 per Mfbm, or 17%, increase in the average North American Random Lengths Western SPF 2x4 #2&Btr price quarter-over-quarter, Western SPF lumber unit sales realizations reflected materially lower offshore unit sales realizations in the current period, offset to a degree by a 4% weaker Canadian dollar (versus the US-dollar). The decline in the Company's European lumber unit sales realizations in the current period principally reflected lower European market demand and pricing, compared to the significant strength in lumber demand from the United Kingdom in the comparative period, and an 18% stronger Canadian dollar (versus the SEK). In the US South, the increase in lumber unit sales realizations largely reflected a US$189 per Mfbm, or 35%, improvement in the average SYP 2x4 #2 price, combined with a US$52 per Mfbm, or 13%, uplift in the SYP 2x6 #2 price.

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) were modestly lower than the previous quarter primarily reflecting declines in other European revenues, largely attributable to seasonal production downtime, and, to a lesser extent, a 5% stronger Canadian dollar (versus the SEK). Compared to the third quarter of 2021, other revenues experienced a significant increase principally attributable to higher log and pellet sales in Western Canada and increased engineered wood products sales in the US South in the current period.

Operations

Total lumber production, at 1.18 million board feet, was 18% lower than the prior quarter. In Western Canada, despite an improvement in transportation networks through the current period, reduced operating schedules across the Company's BC sawmills, which commenced in the second quarter, continued well into the third quarter. In addition, as the third quarter progressed, declining lumber prices and high log costs led to market-driven curtailments at most of the Company's BC sawmills late September. Combined, these capacity reductions lowered Western SPF production by approximately 200 million board feet in the current period. Production in the US South was broadly in line with the prior quarter while at the Company's European operations, lower production in the current period was attributable to four weeks of regular seasonal downtime in July and August.

Compared to the third quarter of 2021, total lumber production was down 8%, as the incremental benefit of Millar Western production following the March 2022 acquisition, was more than offset by the aforementioned downtime in Western Canada and Europe.

Lumber unit manufacturing and product costs were moderately higher compared to the prior quarter primarily reflecting an uptick in per-unit conversion costs across all operations, combined with a notable increase in log costs in Western Canada. The former was mostly due to the incremental impact of lower production volumes and, to a lesser extent, inflationary pressures on labour, maintenance and energy costs. In BC, significant log cost increases in the current quarter were largely a result of higher market-based stumpage costs stemming from record lumber pricing earlier in the year. Log costs in the US South and Europe were broadly in line with the prior quarter.

Compared to the third quarter of 2021, lumber unit manufacturing costs increased significantly, most notably in North America, due to the combined impact of higher log and conversion costs. Increased Western SPF log costs were primarily driven by the impact of increased fuel costs on logging and hauling activities, while the uplift in log costs in the US South reflected an increase in log demand in that region. In Europe, log costs were broadly in line with the comparative quarter. Higher conversion costs largely reflected inflationary cost pressures in the current period, and, for Western SPF specifically, the per-unit impact of reduced production.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[13]

(millions of Canadian dollars, unless otherwise noted)	**Q3 2022**	Q2 2022	**YTD 2022**	Q3 2021	YTD 2021
Sales	**$ 308.3**	$ 288.8	**$ 817.3**	$ 298.7	$ 895.1
Operating income before amortization[14]	**$ 46.7**	$ 15.7	**$ 56.5**	$ 37.8	$ 136.4
Operating income (loss)	**$ 19.2**	$ (8.1)	**$ (14.9)**	$ 15.8	$ 71.7
Inventory write-down expense (recovery)	**$ (1.1)**	$ 0.5	**$ (1.7)**	$ 3.5	$ 1.3
Adjusted operating income (loss)[15]	**$ 18.1**	$ (7.6)	**$ (16.6)**	$ 19.3	$ 73.0
Average NBSK pulp price delivered to China – US$[16]	**$ 969**	$ 1,008	**$ 959**	$ 832	$ 892
Average NBSK pulp price delivered to China – Cdn$[16]	**$ 1,265**	$ 1,287	**$ 1,231**	$ 1,048	$ 1,116
Production – pulp (000 mt)	**195**	187	**558**	247	829
Production – paper (000 mt)	**33**	33	**100**	31	94
Shipments – pulp (000 mt)	**199**	205	**580**	241	791
Shipments – paper (000 mt)	**32**	34	**97**	34	100

13 Includes 100% of Canfor Pulp Products Inc., which is consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both NBSK pulp and BCTMP.

14 Amortization includes amortization of certain capitalized major maintenance costs.

15 Adjusted operating income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

16 Per tonne, NBSK pulp list net price delivered to China (as published by Resource Information Systems, Inc. ("RISI")); Average NBSK pulp net price delivered to China in Cdn$ calculated as average NBSK pulp 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 market conditions remained relatively strong through most of the third quarter of 2022, principally reflecting increased demand, particularly from the North American and European markets, coupled with supply shortages, tied to ongoing global logistical challenges and unforeseen global production disruptions. Market fundamentals came increasingly under pressure in the latter part of the quarter however, driven largely by a moderation in purchasing activity from China.

The strong NBSK US-dollar pulp list prices to China experienced in the first half of the year, continued into the current quarter, with prices reaching a near-record high of US$1,010 per tonne in July, before declining in August and September, to end the quarter at US$948 per tonne. Consequently, average US-dollar NBSK pulp list prices to China for the current quarter were US$969 per tonne, down US$39 per tonne, or 4%, from the previous quarter, but up US$137 per tonne, or 16%, compared to the third quarter of 2021. Prices to North America continued to strengthen in the current quarter, averaging US$1,800 per tonne (before discounts), up US$57 per tonne, or 3%, from the previous quarter, and up $258 per tonne, or 17%, compared to the same period from last year.

Despite relatively steady global market fundamentals, global softwood pulp producer inventories at the end of August 2022 were well above the balanced range at 44 days[17] of supply, four days higher than at the end of June 2022, largely tied to the ongoing global supply chain challenges. (Market conditions are generally considered balanced when inventories are in the 28-36 days of supply range).

Global kraft paper market demand and pricing continued to strengthen through the third quarter of 2022, led principally by the North American region.

Sales

Pulp shipments for the third quarter of 2022 were 199,000 tonnes, down 6,000 tonnes, or 3% from the previous quarter, principally reflecting the impacts of a constrained global supply chain network on pulp production and shipments, combined with the timing of shipments around quarter-end. Compared to the third quarter of 2021, pulp shipments were down 42,000 tonnes, or 17%, primarily reflecting the 21% reduction in pulp production and, to a lesser extent, the timing of vessels quarter-over-quarter.

Notwithstanding the decline in NBSK pulp list prices to China in the latter part of the current quarter, Canfor Pulp Product Inc.'s ("CPPI") average NBSK pulp unit sales realizations were significantly higher than the previous quarter, primarily due to a favourable timing lag in shipments (versus orders) and, to a lesser extent, a weaker Canadian dollar. Compared to the third quarter of 2021, CPPI's average NBSK pulp unit sales realizations saw a substantial increase, as a notable uptick in US-dollar pulp list pricing quarter-over-quarter was combined with a weaker Canadian dollar.

Energy revenues increased compared to the second quarter of 2022, largely due to seasonally higher energy prices. Compared to the third quarter of 2021, energy revenue was moderately lower, primarily reflecting reduced energy generation tied to decreased pulp production quarter-over-quarter.

Paper shipments in the third quarter of 2022 were 32,000 tonnes, down 2,000 tonnes from both comparative periods, largely due to the timing of shipments quarter-over-quarter.

Paper unit sales realizations in the third quarter of 2022 were moderately higher than the previous quarter, principally reflecting higher market-driven US-dollar pricing in North America in the current period, combined with the weaker Canadian dollar. Compared to the third quarter of 2021, paper unit sales realizations experienced a substantial increase, primarily reflecting a notable improvement in US-dollar prices, especially to North American markets, quarter-over-quarter, combined with a 4% weaker Canadian dollar.

Operations

Following the completion of capital-related downtime in the first half of 2022, pulp production was 195,000 tonnes for the third quarter of 2022, up 8,000 tonnes, or 4%, from the previous quarter, as NBSK pulp productivity steadily improved as the quarter progressed. Consistent with the prior period, however, NBSK pulp production in the current quarter continued to be limited to available transportation. Concurrently, logistics-related downtime at CPPI's Taylor Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill ("Taylor"), which commenced in the first quarter of 2022 and continued throughout the second and third quarters, reduced production by approximately 60,000 tonnes in the current period. In addition, NBSK pulp production in the current quarter included the completion in mid-July of CPPI's Northwood NBSK pulp mill's ("Northwood") scheduled maintenance outage (approximately 16,000 tonnes) as well as the commencement in September of CPPI's Intercontinental NBSK pulp mill's ("Intercon") planned maintenance downtime (approximately 6,000 tonnes in the third quarter and a further 6,000 tonnes in October).

In the second quarter of 2022, pulp production was primarily impacted by significant transportation shortages in BC, which resulted in downtime at Taylor (approximately 60,000 tonnes) and productivity constraints at all of CPPI's NBSK pulp mills. In addition, pulp production in the previous quarter reflected the completion of Northwood's recovery boiler number one ("RB1") capital upgrade (approximately 10,000 tonnes) as well as the commencement of Northwood's scheduled outage (approximately 30,000 tonnes).

[17] 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").

Compared to the third quarter of 2021, pulp production was down 52,000 tonnes, or 21%, mainly reflecting the aforementioned transportation-related curtailment at Taylor and supply chain constraints on NBSK productivity in the current period, as well as planned downtime at Northwood and Intercon. These factors more than offset reduced pulp production in the comparative period driven by scheduled maintenance outages at CPPI's Prince George NBSK ("PG") and Taylor pulp mills, as well as rail-related downtime at Northwood and Taylor (combined, approximately 42,000 tonnes).

Pulp unit manufacturing costs were comparable to the previous quarter, as increased fibre costs more than offset the benefit of lower energy prices and, to a lesser extent, reduced maintenance spend (timing-related) in the current period. The higher fibre costs principally reflected increased market prices for delivered sawmill residual chips (linked to Canadian dollar NBSK pulp sales realizations) and, to a lesser extent, a larger proportion of higher-cost whole log chips as a result of sawmill curtailments in the current quarter.

Compared to the third quarter of 2021, pulp unit manufacturing costs were significantly higher, mostly attributable to lower production combined with market-related increases in fibre costs as well as increased energy usage and higher chemical costs in the current quarter.

Paper production for the third quarter of 2022 was 33,000 tonnes, broadly in line with both comparative periods.

Moderately higher paper unit manufacturing costs, compared to both the second quarter of 2022 and the third quarter of 2021, principally reflected notably higher slush pulp costs (associated with increased Canadian dollar average NBSK pulp unit sales realizations), offset in part by the benefit of reduced spend on operating supplies in the current period (timing-related).

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)		**Q3 2022**		Q2 2022		**YTD 2022**		Q3 2021		YTD 2021
Corporate costs	**$**	**(12.2)**	$	(12.4)	**$**	**(39.7)**	$	(10.9)	$	(30.1)
Finance income (expense), net	**$**	**4.8**	$	(3.3)	**$**	**(2.8)**	$	(6.0)	$	(19.9)
Foreign exchange gain on term debt and duties recoverable, net	**$**	**9.3**	$	2.0	**$**	**11.8**	$	1.1	$	4.9
Gain (loss) on derivative financial instruments	**$**	**(1.0)**	$	(2.6)	**$**	**(0.8)**	$	1.1	$	(11.5)
Other income, net	**$**	**16.8**	$	14.6	**$**	**37.3**	$	7.2	$	21.7

Corporate costs were $12.2 million for the third quarter of 2022, broadly in line with the previous quarter and up $1.3 million compared to the third quarter of 2021. The latter reflected an increase in legal, head office and general administrative expenses in the current period.

Net finance income of $4.8 million in the third quarter of 2022, compared to net finance expense of $3.3 million in the previous quarter and net finance expense of $6.0 million in the third quarter of 2021, largely reflected an increase in accrued interest income on recoverable duty deposits following the finalization of CVD and ADD rates for POR3, and, to a lesser extent, higher interest income on US-dollar short term investments quarter-over-quarter.

In the third quarter of 2022, the Company recognized a foreign exchange gain of $21.7 million on its US-dollar denominated net duty deposits recoverable, offset by a $12.4 million loss on 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 June 2022.

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 third quarter of 2022, the Company recorded a net loss of $1.0 million related to its derivative instruments, primarily reflecting mark-to-market losses (both realized and unrealized) on SEK foreign exchange forward contracts.

Other income, net, of $16.8 million for the third quarter of 2022 principally reflected favourable foreign exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income (Loss)

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

(millions of Canadian dollars)	Q3 2022	Q2 2022	YTD 2022	Q3 2021	YTD 2021
Defined benefit actuarial gain (loss), net of tax	**$ (7.3)**	$ 13.6	**$ 31.1**	$ 9.1	$ 27.0
Foreign exchange gain (loss) from translation of foreign operations, net of tax	**$ 84.5**	$ (22.5)	**$ (3.9)**	$ 30.6	$ (47.4)
Other comprehensive income (loss), net of tax	**$ 77.2**	$ (8.9)	**$ 27.2**	$ 39.7	$ (20.4)

In the third quarter of 2022, the Company recorded a loss of $10.0 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), reflecting a 0.2% decrease in the discount rate used to value the employee future benefit plans, offset in part by a higher than anticipated return on plan assets. This compared to a gain of $18.6 million (before tax) in the second quarter of 2022 attributable to a 1.2% increase in the discount rate, partially offset by a lower than anticipated return on plan assets, and to a lesser extent, a loss related to the derecognition of a surplus for one of the Company's registered pension plans. In the third quarter of 2021, the Company recorded a gain of $12.4 million (before tax) largely reflecting a higher than anticipated return on plan assets.

In addition, the Company recorded an accounting gain of $84.5 million in the third quarter of 2022 related to foreign exchange differences for foreign operations, largely reflecting the weakening of the Canadian dollar relative to the US-dollar, offset in part by the strengthening of the Canadian dollar relative to the SEK at the end of the quarter. This compared to a loss of $22.5 million in the second quarter of 2022 and gain of $30.6 million in the third quarter of 2021.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except ratios)	Q3 2022	Q2 2022	YTD 2022	Q3 2021	YTD 2021
Increase (decrease) in cash and cash equivalents[18]	**$ 33.8**	$ 434.5	**$ 245.5**	$ 265.3	$ 1,037.4
Operating activities	**$ 184.4**	$ 677.4	**$ 1,165.8**	$ 420.4	$ 1,819.1
Financing activities	**$ 0.8**	$ (117.0)	**$ (128.7)**	$ (28.9)	$ (480.5)
Investing activities	**$ (151.4)**	$ (125.9)	**$ (791.6)**	$ (126.2)	$ (301.2)
Ratio of current assets to current liabilities		3.3:1	**3.4:1**		2.6:1
Net cash to capitalization[19]		(35.8)%	**(35.5)%**		(41.5)%
Cumulative duty deposits paid		$ 849.6	**$ 878.2**		$ 656.1

[18] Increase (decrease) in cash and cash equivalents shown before foreign exchange translation on cash and cash equivalents.
[19] Net cash to 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

Operating activities generated $184.4 million of cash in the third quarter of 2022, compared to cash generated of $677.4 million in the previous quarter and $420.4 million in the third quarter of 2021. The decrease in operating cash flows from the previous quarter primarily reflected lower cash earnings in the current period. Compared to the third quarter of 2021, the decrease in operating cash flows was due to lower cash earnings and, to a lesser extent, higher tax installment payments in the current quarter, offset in part by favourable working capital movements largely attributable to a timing-related increase in accounts payable and accrued liabilities in the current period.

Financing Activities

Cash generated from financing activities was $0.8 million in third quarter of 2022 compared to cash used of $117.0 million in the previous quarter and cash used of $28.9 million in the third quarter of 2021. Financing activities in the current quarter primarily reflected a $15.0 million draw-down of CPPI's principal operating loan facility offset by payments for shares purchased in the previous quarter, as well as lease and interest payments. In the previous quarter, cash used for financing activities primarily reflected $60.9 million of cash distributions to non-controlling interests combined with $40.5 million of share repurchases. In the third quarter of 2021, financing activities largely consisted of share repurchases and lease payments.

Investing Activities

Cash used for investing activities in the third quarter of 2022 was $151.4 million, compared to cash used of $125.9 million in the previous quarter and $126.2 million for the third quarter of 2021. Investing activities in these periods were principally comprised of capital additions.

Capital additions in the third quarter of 2022 were $138.8 million, up $25.7 million from the previous quarter and up $10.3 million from the third quarter of 2021. In the lumber segment, current quarter capital expenditures primarily reflected the continued construction of the Company's greenfield sawmill in DeRidder, Louisiana, and ongoing costs related to the upgrade and expansion of the Company's Urbana sawmill. In the pulp and paper segment, current quarter expenditures were principally comprised of maintenance-of-business capital.

Liquidity and Financial Requirements

Operating Loans – Consolidated

At September 30, 2022, on a consolidated basis, including CPPI and the Vida Group ("Vida"), the Company had cash and cash equivalents of $1,601.5 million, with $32.1 million drawn on its operating loans and facilities, and an additional $82.3 million reserved for several standby letters of credit. At the end of the quarter, the Company had available, undrawn operating loan facilities of $1,149.9 million, including an undrawn committed revolving credit facility.

Operating Loans – Canfor, excluding Vida and CPPI

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 LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio. Canfor's committed operating loan facility is repayable on October 27, 2026. On June 28, 2023, 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 June 28, 2031.

As at September 30, 2022, Canfor, excluding CPPI and Vida, had available operating loan facilities totaling $1,050.6 million, with no amounts drawn on its committed revolving facility, and $69.4 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans, leaving $981.2 million available and undrawn on its operating loan facilities at the end of the period.

Operating Loans – Vida

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 1.2% to 5.0%. Vida also has separate overdraft facilities with fixed interest rates ranging from 1.2% to 3.5%. Vida's operating loan facilities have certain financial covenants including minimum equity and interest coverage ratios.

As at September 30, 2022, Vida had $17.1 million drawn on its $103.7 million operating loan facilities, leaving $86.6 million available and undrawn at the end of the quarter.

Operating Loans – CPPI

The terms of CPPI's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization and is based on lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin. CPPI's operating loan facility is repayable on December 15, 2025.

As at September 30, 2022, CPPI had a $110.0 million operating loan facility, with $15.0 million drawn in the current quarter and $12.9 million reserved for several standby letters of credit under the operating loan facility, leaving $82.1 million available and undrawn on its operating loan facility at the end of the quarter.

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 assets.

Net Cash and Liquidity

As at September 30, 2022, on a consolidated basis, including CPPI and Vida, the Company had total net cash of $1,307.9 million, a $40.0 million improvement from net cash of $1,267.9 million at the end of the previous quarter. Available liquidity of $2,751.4 million increased by $70.7 million during the current quarter.

The Company's consolidated net cash to total capitalization at the end the third quarter of 2022 was 35.5%. For Canfor, excluding CPPI, net cash to capitalization at the end of the third quarter of 2022 was 40.2%.

Debt Covenants

Canfor, Vida and CPPI remained in compliance with all covenants relating to their respective operating loan facilities and term debt during the current 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.

Normal Course Issuer Bid

On March 17, 2022, the Company announced that it has received regulatory approval for an early renewal of its normal course issuer bid whereby it can purchase for cancellation up to 6,224,680 common shares, or approximately 5% of its issued and outstanding common shares as at March 15, 2022. The renewed normal course issuer bid is set to expire on March 20, 2023.

During the three months ended September 30, 2022, no common shares were repurchased by the Company, while $2.4 million was paid in the current quarter in relation to shares purchased in the prior quarter.

Shares Outstanding

As at September 30, 2022 and October 27, 2022, there were 122,519,400 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, 2022, the Company moved into the fifth period of review ("POR5"), which is based on sales and cost data in 2022. Consistent with prior periods of review, the Company was unable to estimate an applicable CVD rate separate from the cash deposit rate determined by the Department of Commerce ("DOC"). As a result, CVD was expensed at a rate of 2.42% until July 2022 and 0.95% thereafter, while ADD was expensed at an estimated rate of 5.00%.

Also in January 2022, the DOC announced the preliminary results for POR3, which is based on sales and cost data in 2020, and in July 2022, finalized the rates. The Company's final CVD rate was determined to be 0.95% (versus a cash deposit rate of 13.24% from January to November 2020 and 2.63% for December 2020), while the final ADD rate was 4.92% (versus a cash deposit rate of 7.28% from January to November 2020 and 1.99% for December 2020, and estimated accrual rate of 5.00%).

Upon finalization of these POR3 rates, a net recovery of $97.6 million (US$73.0 million) was recognized in the Company's consolidated income statement during the third quarter of 2022, with a corresponding net receivable included in 'Long-term investments and other' on the Company's consolidated balance sheet as at September 30, 2022, reflecting the difference between the combined accrual rates (18.24% from January to November 2020 and 7.63% for December 2020) and the DOC's final combined rate established for POR3 (5.87%).

The Company's current combined cash deposit rate of 19.54% was reset in August 2022 to the final rate of 5.87% as determined in POR3. This new cash deposit rate will apply to the Company's Canadian lumber shipments destined to the United States until completion of the administrative review for the fourth period of review ("POR4") (anticipated in 2023). Despite the reduced rates for POR3, no cash duties will be refunded to the Company until such time as the litigation regarding the imposition of CVD and ADD has been settled.

Net-Zero Carbon Emissions Plan

Building on the Company's sustainability strategy, on April 26, 2022, the Company announced its commitment to achieve net-zero carbon emissions by 2050. To achieve net-zero, the Company has developed near term science-based targets that include reducing the carbon emissions from its lumber and pulp operations, which are defined as Scope 1 and Scope 2, by 42% by 2030 compared to a base year of 2020. The Company intends to invest at least $250 million in carbon reduction initiations over the next eight years to reduce carbon emissions and achieve this target. In addition, by 2024 the Company will measure and assess global supply chain and woodlands emissions, which are defined as Scope 3, and set a science-based reduction target. The Company committed to these company-wide emission reductions in line with the Science Based Targets initiative ("SBTi") and will undergo validation with the SBTi within the next two years.

Sustainability Reporting

On June 28, 2022, the Company published its 2021 Sustainability Report which is the second year of its sustainability strategy. The report is a continuation of the Company's ambition to become an industry leader in sustainability and furthers its commitments to sustainability, including transparent reporting of sustainability practices, goals and metrics. The 2021 Sustainability Report includes performance to date on targets set in the previous year's report as well as additional performance targets for the material topics of Climate Change, Water Management, Waste

Management and Air Quality. The 2021 Sustainability Report also includes disclosures aligned with the recommendations from the Task Force on Climate-related Financial Disclosures ("TCFD") and the Sustainability Accounting Standards Board ("SASB") standards.

OUTLOOK

Lumber

Looking ahead, global lumber market fundamentals are anticipated to face significant downward pressure through the balance of 2022. Decreasing housing affordability, tied to persistent inflation and interest rates, is projected to continue to reduce new home construction activity in North America while the repair and remodeling sector is forecast to experience some softness in the fourth quarter, albeit to a lesser extent, driven principally by seasonal impacts. Offshore lumber demand in Asia is estimated to see ongoing weakness as high inventories in the region persist through the balance of the year. European lumber pricing is anticipated to continue to weaken through the fourth quarter, largely driven by subdued activity in the repair and remodeling segment in that region.

As a result of the challenging market conditions, results in the fourth quarter are forecast to reflect the continuation of reduced operating schedules across the Company's Western Canadian sawmills, as well as some reduced shifts at the Company's European operations, which, in the case of Europe, may be less than originally anticipated. The Company will continue to closely monitor the external challenges impacting the business, including global lumber market conditions, supply chain networks, as well as the availability of economically viable fibre in BC, and will adjust operating rates accordingly through the balance of 2022.

Pulp and Paper

Looking forward, global softwood pulp markets are projected to soften somewhat through the fourth quarter of 2022, reflecting tempered pulp demand, particularly from China.

Results in the fourth quarter are anticipated to reflect the continued uncertainties associated with lingering supply chain challenges and the related pressures on CPPI's operations and shipments. As previously disclosed, it is projected that a restart of Taylor will not be contemplated until such time as there is a return to more normal transportation service levels to all of CPPI's pulp and paper mills.

CPPI's results in the fourth quarter of 2022 will see the continuation of Intercon's scheduled maintenance outage into October, with an estimated 6,000 tonnes of reduced NBSK pulp production. In addition, NBSK pulp production in the fourth quarter will reflect a temporary curtailment at Intercon due to a lack of available economic fibre (approximately 16,000 tonnes). The current weakness in lumber markets may result in extended sawmill curtailments in the BC Interior, with the risk that lower volumes of sawmill residual chips available to pulp mills may cause further downtime at CPPI's operations. CPPI will continue to closely monitor the supply chain challenges as well as the availability of economically viable chip supply, and will adjust future operating plans accordingly, through the balance of 2022.

Bleached kraft paper markets are projected to experience a modest slowdown in the fourth quarter, particularly in the North American and offshore markets, as global kraft paper inventory levels move towards a more balanced range.

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 accounts receivable, 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 13 of the condensed consolidated interim financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

With the recent acquisition of Millar Western on March 1, 2022, the scope of the Company's design of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") as at September 30, 2022, has been limited to exclude the controls, policies and procedures of Millar Western. Following the completion of such an evaluation, however, the Company intends to include such controls, policies and procedures within the design of

DC&P and ICFR. Additional information about the acquisition is provided under Note 12 of Canfor's condensed consolidated interim financial statements.

Other than the aforementioned Millar Western acquisition earlier in the year, there were no changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2022 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 2021 annual statutory reports which are available on www.canfor.com or www.sedar.com.

There have been no adverse impacts of the coronavirus ("COVID-19") on the Company in the third quarter of 2022. The Company continues to closely monitor the impacts of COVID-19, however, should the duration, spread or intensity of the pandemic change, supply chain, market pricing and customer demand could be affected. These factors could impact the Company's operating plan, liquidity, cash flows, and the valuation of long-lived assets. Please see the Company's annual disclosures referenced above for further information.

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 wildfires, 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 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

	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 1,666.4**	$ 2,173.1	$ 2,213.9	$ 1,571.3	$ 1,676.6	$ 2,495.2	$ 1,941.8	$ 1,618.0
Operating income before amortization and impairment[20]	**$ 211.5**	$ 630.3	$ 830.7	$ 321.7	$ 425.4	$ 1,134.6	$ 696.7	$ 520.0
Operating income (loss)	**$ 108.6**	$ 531.6	$ 741.9	$ (66.8)	$ 331.0	$ 1,041.3	$ 602.6	$ 419.6
Net income (loss)	**$ 106.5**	$ 415.5	$ 570.5	$ (35.5)	$ 256.8	$ 784.6	$ 452.9	$ 346.7
Shareholder net income (loss)	**$ 87.4**	$ 373.8	$ 534.0	$ (23.1)	$ 210.0	$ 726.9	$ 427.8	$ 335.6
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ 0.71**	$ 3.02	$ 4.29	$ (0.19)	$ 1.68	$ 5.81	$ 3.42	$ 2.68
Book value[21]	**$ 36.14**	$ 34.77	$ 31.96	$ 27.99	$ 28.23	$ 26.26	$ 20.64	$ 17.63
Statistics								
Lumber shipments (MMfbm)[22]	**1,311**	1,528	1,407	1,320	1,316	1,540	1,449	1,560
Pulp shipments (000 mt)	**199**	205	176	216	241	285	265	258
Average exchange rate – US$/Cdn$	**$ 0.766**	$ 0.783	$ 0.790	$ 0.794	$ 0.794	$ 0.814	$ 0.790	$ 0.767
Average exchange rate – SEK/Cdn$	**$ 8.082**	7.708	7.367	7.026	6.865	6.851	6.628	6.608
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 580**	$ 866	$ 1,274	$ 711	$ 494	$ 1,342	$ 972	$ 700
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 722**	$ 769	$ 1,372	$ 862	$ 533	$ 1,163	$ 1,160	$ 777
Average SYP (East) 2x6 #2 lumber price (US$)	**$ 459**	$ 556	$ 1,102	$ 538	$ 407	$ 946	$ 904	$ 537
Average NBSK pulp list price delivered to China (US$)	**$ 969**	$ 1,008	$ 899	$ 723	$ 832	$ 962	$ 883	$ 637

[20] Amortization includes amortization of certain capitalized major maintenance costs; includes asset impairment charges of $293.5 million in Q4 2021.

[21] 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.

[22] 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 material 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)	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Shareholder net income (loss), as reported	**$ 87.4**	$ 373.8	$ 534.0	$ (23.1)	$ 210.0	$ 726.9	$ 427.8	$ 335.6
Foreign exchange (gain) loss on term debt	**$ 10.6**	$ 4.9	$ (3.0)	$ 0.2	$ 2.6	$ (5.7)	$ (2.6)	$ (11.7)
(Gain) loss on derivative financial instruments	**$ 0.5**	$ 1.0	$ (2.0)	$ 3.0	$ (0.8)	$ -	$ 9.0	$ (2.2)
Asset impairments	**$ -**	$ -	$ -	$ 182.9	$ -	$ -	$ -	$ -
Restructuring, mill closure and other items, net	**$ -**	$ -	$ -	$ (8.4)	$ (2.8)	$ -	$ -	$ -
Net impact of above items	**$ 11.1**	$ 5.9	$ (5.0)	$ 177.7	$ (1.0)	$ (5.7)	$ 6.4	$ (13.9)
Adjusted shareholder net income[23]	**$ 98.5**	$ 379.7	$ 529.0	$ 154.6	$ 209.0	$ 721.2	$ 434.2	$ 321.7
Shareholder net income (loss) per share (EPS), as reported	**$ 0.71**	$ 3.02	$ 4.29	$ (0.19)	$ 1.68	$ 5.81	$ 3.42	$ 2.68
Net impact of above items per share	**$ 0.09**	$ 0.05	$ (0.04)	$ 1.43	$ -	$ (0.05)	$ 0.05	$ (0.11)
Adjusted shareholder net income per share[23]	**$ 0.80**	$ 3.07	$ 4.25	$ 1.24	$ 1.68	$ 5.76	$ 3.47	$ 2.57

[23] Adjusted shareholder net income 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, except for ratios)	Q3 2022	Q2 2022	YTD 2022	Q3 2021	YTD 2021
Reported operating income	**$ 108.6**	$ 531.6	**$ 1,382.1**	$ 331.0	$ 1,974.9
Inventory write-down, net	**$ 88.5**	$ 0.5	**$ 87.9**	$ 3.5	$ 1.3
Restructuring, mill closure and other items, net	**$ -**	$ -	**$ -**	$ (3.8)	$ (3.8)
Adjusted operating income	**$ 197.1**	$ 532.1	**$ 1,470.0**	$ 330.7	$ 1,972.4
Amortization	**$ 102.9**	$ 98.7	**$ 290.4**	$ 94.4	$ 281.8
Adjusted operating income before amortization	**$ 300.0**	$ 630.8	**$ 1,760.4**	$ 425.1	$ 2,254.2

(millions of Canadian dollars)	Q3 2022	Q2 2022	YTD 2022	Q3 2021	YTD 2021
Reported operating income	**$ 108.6**	$ 531.6	**$ 1,382.1**	$ 331.0	$ 1,974.9
Realized (gain) loss on derivative financial instruments	**$ (4.5)**	$ 0.7	**$ (0.5)**	$ (2.0)	$ 11.4
Other income, net	**$ 16.8**	$ 14.6	**$ 37.3**	$ 7.2	$ 21.7
Less: non-controlling interests	**$ (29.5)**	$ (63.3)	**$ (148.2)**	$ (60.7)	$ (193.3)
Return	**$ 91.4**	$ 483.6	**$ 1,270.7**	$ 275.5	$ 1,814.7
Average invested capital[24]	**$ 3,887.6**	$ 3,832.1	**$ 3,729.3**	$ 3,093.9	$ 3,187.2
Return on invested capital (ROIC)	**2.4%**	12.6%	**34.1%**	8.9%	56.9%

[24] 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 for ratios)	As at September 30, 2022	As at December 31, 2021	As at September 30, 2021
Term-debt	**$ 261.5**	$ 246.0	$ 253.8
Operating loan	**$ 32.1**	$ 18.7	$ 15.9
Less: Cash and cash equivalents	**$ 1,601.5**	$ 1,354.8	$ 1,460.6
Net cash	**$ (1,307.9)**	$ (1,090.1)	$ (1,190.9)
Total equity	**$ 4,993.8**	$ 4,009.1	$ 4,057.2
Total capitalization	**$ 3,685.9**	$ 2,919.0	$ 2,866.3
Net cash to total capitalization	**(35.5)%**	(37.3)%	(41.5)%

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at September 30, 2022**		As at December 31, 2021
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**1,601.5**	$	1,354.8
Accounts receivable - Trade		**423.3**		430.4
- Other		**90.0**		84.1
Inventories (Note 3)		**1,146.6**		1,173.8
Prepaid expenses and other		**139.5**		120.3
Total current assets		**3,400.9**		3,163.4
Property, plant and equipment		**2,160.9**		1,812.7
Right-of-use assets		**73.0**		65.5
Timber licenses		**388.2**		313.2
Goodwill and other intangible assets		**538.6**		514.8
Long-term investments and other (Note 4)		**542.3**		304.3
Total assets	**$**	**7,103.9**	$	6,173.9
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**799.7**	$	730.2
Operating loans (Note 5(a))		**32.1**		18.7
Current portion of deferred reforestation obligations		**64.5**		58.3
Current portion of term debt (Note 5(b))		**0.2**		0.5
Current portion of lease obligations		**24.8**		21.9
Income taxes payable		**65.2**		252.0
Total current liabilities		**986.5**		1,081.6
Term debt (Note 5(b))		**261.3**		245.5
Retirement benefit obligations (Note 6)		**148.8**		205.5
Lease obligations		**54.9**		49.2
Deferred reforestation obligations		**31.4**		54.6
Other long-term liabilities		**24.2**		31.0
Put liability (Note 7)		**159.3**		156.2
Deferred income taxes, net		**443.7**		341.2
Total liabilities	**$**	**2,110.1**	$	2,164.8
EQUITY				
Share capital	**$**	**966.6**	$	982.2
Contributed surplus and other equity		**(154.5)**		(130.9)
Retained earnings		**3,574.1**		2,586.8
Accumulated other comprehensive income		**42.0**		45.9
Total equity attributable to equity shareholders of the Company		**4,428.2**		3,484.0
Non-controlling interests		**565.6**		525.1
Total equity	**$**	**4,993.8**	$	4,009.1
Total liabilities and equity	**$**	**7,103.9**	$	6,173.9

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

(millions of Canadian dollars, except per share data, unaudited)	3 months ended September 30, **2022**	2021	9 months ended September 30, **2022**	2021
Sales	**$ 1,666.4**	$ 1,676.6	**$ 6,053.4**	$ 6,113.6
Costs and expenses				
Manufacturing and product costs	**1,295.1**	1,007.5	**3,654.4**	3,119.5
Freight and other distribution costs	**195.9**	170.1	**609.4**	532.1
Countervailing and anti-dumping duty expense (recovery), net (Note 13)	**(77.0)**	38.4	**(5.9)**	101.5
Amortization	**102.9**	94.4	**290.4**	281.8
Selling and administration costs	**40.9**	35.2	**123.0**	103.8
	1,557.8	1,345.6	**4,671.3**	4,138.7
Operating income	**108.6**	331.0	**1,382.1**	1,974.9
Finance income (expense), net	**4.8**	(6.0)	**(2.8)**	(19.9)
Foreign exchange gain (loss) on term debt	**(12.4)**	(3.0)	**(14.5)**	6.6
Foreign exchange gain (loss) on duties recoverable, net	**21.7**	4.1	**26.3**	(1.7)
Gain (loss) on derivative financial instruments (Note 7)	**(1.0)**	1.1	**(0.8)**	(11.5)
Other income, net	**16.8**	7.2	**37.3**	21.7
Net income before income taxes	**138.5**	334.4	**1,427.6**	1,970.1
Income tax expense (Note 8)	**(32.0)**	(77.6)	**(335.1)**	(475.8)
Net income	**$ 106.5**	$ 256.8	**$ 1,092.5**	$ 1,494.3
Net income attributable to:				
Equity shareholders of the Company	**$ 87.4**	$ 210.0	**$ 995.2**	$ 1,364.7
Non-controlling interests	**19.1**	46.8	**97.3**	129.6
Net income	**$ 106.5**	$ 256.8	**$ 1,092.5**	$ 1,494.3
Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 9)	**$ 0.71**	$ 1.68	**$ 8.05**	$ 10.91

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 September 30, 2022	3 months ended September 30, 2021	9 months ended September 30, 2022	9 months ended September 30, 2021
Net income	**$ 106.5**	$ 256.8	**$ 1,092.5**	$ 1,494.3
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to net income:				
Defined benefit plan actuarial gains (losses), net (Note 6)	**(10.0)**	12.4	**42.6**	37.0
Income tax recovery (expense) on defined benefit plan actuarial gains (losses), net (Note 8)	**2.7**	(3.3)	**(11.5)**	(10.0)
	(7.3)	9.1	**31.1**	27.0
Items that may be reclassified subsequently to net income:				
Foreign exchange translation of foreign operations, net of tax	**84.5**	30.6	**(3.9)**	(47.4)
Other comprehensive income (loss), net of tax	**77.2**	39.7	**27.2**	(20.4)
Total comprehensive income	**$ 183.7**	$ 296.5	**$ 1,119.7**	$ 1,473.9
Total comprehensive income attributable to:				
Equity shareholders of the Company	**$ 165.5**	$ 249.3	**$ 1,016.4**	$ 1,342.7
Non-controlling interests	**18.2**	47.2	**103.3**	131.2
Total comprehensive income	**$ 183.7**	$ 296.5	**$ 1,119.7**	$ 1,473.9

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 September 30, **2022**	3 months ended September 30, 2021	9 months ended September 30, **2022**	9 months ended September 30, 2021
Share capital				
Balance at beginning of period	**$ 966.6**	$ 985.4	**$ 982.2**	$ 987.9
Share purchases (Note 9)	**-**	(3.2)	**(15.6)**	(5.7)
Balance at end of period	**$ 966.6**	$ 982.2	**$ 966.6**	$ 982.2
Contributed surplus and other equity				
Balance at beginning of period	**$ (156.8)**	$ (139.7)	**$ (130.9)**	$ (127.4)
Put liability (Note 7)	**2.3**	(4.1)	**(23.6)**	(16.4)
Balance at end of period	**$ (154.5)**	$ (143.8)	**$ (154.5)**	$ (143.8)
Retained earnings				
Balance at beginning of period	**$ 3,493.1**	$ 2,392.7	**$ 2,586.8**	$ 1,227.3
Net income attributable to equity shareholders of the Company	**87.4**	210.0	**995.2**	1,364.7
Defined benefit plan actuarial gains (losses), net of tax	**(6.4)**	8.7	**25.1**	25.4
Share purchases (Note 9)	**-**	(7.5)	**(33.0)**	(13.5)
Balance at end of period	**$ 3,574.1**	$ 2,603.9	**$ 3,574.1**	$ 2,603.9
Accumulated other comprehensive income				
Balance at beginning of period	**$ (42.5)**	$ 41.7	**$ 45.9**	$ 119.7
Foreign exchange translation of foreign operations, net of tax	**84.5**	30.6	**(3.9)**	(47.4)
Balance at end of period	**$ 42.0**	$ 72.3	**$ 42.0**	$ 72.3
Total equity attributable to equity shareholders of the Company	**$ 4,428.2**	$ 3,514.6	**$ 4,428.2**	$ 3,514.6
Non-controlling interests				
Balance at beginning of period	**$ 549.1**	$ 499.9	**$ 525.1**	$ 426.2
Net income attributable to non-controlling interests	**19.1**	46.8	**97.3**	129.6
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of tax	**(0.9)**	0.4	**6.0**	1.6
Distributions to non-controlling interests	**(1.7)**	(4.5)	**(62.8)**	(14.8)
Balance at end of period	**$ 565.6**	$ 542.6	**$ 565.6**	$ 542.6
Total equity	**$ 4,993.8**	$ 4,057.2	**$ 4,993.8**	$ 4,057.2

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 September 30, **2022**	2021	9 months ended September 30, **2022**	2021
Cash generated from (used in):				
Operating activities				
Net income	**$ 106.5**	$ 256.8	**$ 1,092.5**	$ 1,494.3
Items not affecting cash:				
Amortization	**102.9**	94.4	**290.4**	281.8
Income tax expense	**32.0**	77.6	**335.1**	475.8
Change in long-term portion of deferred reforestation obligations, net	**(31.5)**	(23.2)	**(29.0)**	(11.2)
Foreign exchange (gain) loss on term debt	**12.4**	3.0	**14.5**	(6.6)
Foreign exchange (gain) loss on duties recoverable, net	**(21.7)**	(4.1)	**(26.3)**	1.7
Duties paid (greater) less than accruals (Note 13)	**(105.6)**	27.0	**(201.6)**	39.4
Changes in mark-to-market value of derivative financial instruments (Note 7)	**5.5**	0.9	**1.3**	0.1
Employee future benefits expense	**2.1**	2.6	**6.4**	8.5
Finance (income) expense, net	**(4.8)**	6.0	**2.8**	19.9
Other, net	**2.9**	(4.4)	**1.0**	(12.4)
Defined benefit plan contributions, net	**(3.0)**	(3.3)	**(9.8)**	(11.3)
Income taxes paid, net	**(98.9)**	(43.7)	**(419.9)**	(225.5)
	(1.2)	389.6	**1,057.4**	2,054.5
Net change in non-cash working capital (Note 10)	**185.6**	30.8	**108.4**	(235.4)
	184.4	420.4	**1,165.8**	1,819.1
Financing activities				
Operating loan drawings (repayments), net (Note 5(a))	**15.8**	(3.1)	**16.0**	4.8
Repayments of term debt, net (Note 5(b))	**(0.1)**	(0.3)	**(0.3)**	(414.9)
Payment of lease obligations	**(6.4)**	(6.6)	**(18.8)**	(19.3)
Finance expenses paid	**(4.4)**	(3.5)	**(14.2)**	(17.4)
Share purchases (Note 9)	**(2.4)**	(10.9)	**(48.6)**	(18.9)
Cash distributions paid to non-controlling interests	**(1.7)**	(4.5)	**(62.8)**	(14.8)
	0.8	(28.9)	**(128.7)**	(480.5)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(138.8)**	(128.5)	**(333.2)**	(252.9)
Acquisition of Millar Western (Note 12)	**-**	-	**(434.0)**	-
Phased acquisition of Elliott	**-**	-	**-**	(38.2)
Other, net	**(12.6)**	2.3	**(24.4)**	(10.1)
	(151.4)	(126.2)	**(791.6)**	(301.2)
Foreign exchange gain on cash and cash equivalents	**34.0**	10.8	**1.2**	4.0
Increase in cash and cash equivalents*	**67.8**	276.1	**246.7**	1,041.4
Cash and cash equivalents at beginning of period*	**1,533.7**	1,184.5	**1,354.8**	419.2
Cash and cash equivalents at end of period*	**$ 1,601.5**	$ 1,460.6	**$ 1,601.5**	$ 1,460.6

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor 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 September 30, 2022.

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2021, available at www.canfor.com or www.sedar.com.

These financial statements were authorized for issue by the Company's Board of Directors on October 27, 2022.

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 September 30, 2022**	As at December 31, 2021
Logs	**$ 310.1**	$ 343.4
Finished products	**635.7**	639.2
Residual fibre	**43.1**	56.5
Materials and supplies	**157.7**	134.7
	$ 1,146.6	$ 1,173.8

The above inventory balances are stated at the lower of cost and net realizable value. For the three and nine months ended September 30, 2022, an $89.6 million inventory write-down expense was recognized for the lumber segment (three and nine months ended September 30, 2021 – no inventory valuation adjustment). At September 30, 2022, an inventory provision of $89.6 million has been recognized for logs and lumber (December 31, 2021 – no provision).

For the three months ended September 30, 2022, a $1.1 million inventory write-down recovery was recognized for the pulp and paper segment (nine months ended September 30, 2022 – $1.7 million write-down recovery, net). For the three months ended September 30, 2021, a $3.5 million inventory write-down expense was recognized (nine months ended September 30, 2021 – $1.3 million write-down expense, net). At September 30, 2022, an inventory provision of $2.9 million has been recognized for woodchips and logs (December 31, 2021 – $4.6 million).

4. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)	**As at September 30, 2022**	As at December 31, 2021
Duty deposits recoverable, net (Note 13)	**$ 426.6**	$ 188.4
Other deposits, loans, advances and long-term assets	**71.0**	49.0
Other investments	**33.0**	37.5
Retirement benefit surplus	**9.4**	24.0
Deferred income taxes, net	**2.3**	5.4
	$ 542.3	$ 304.3

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 September 30, 2022, including interest receivable of $37.6 million (December 31, 2021 – $24.8 million) (Note 13).

5. Operating Loans and Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)	**As at September 30, 2022**	As at December 31, 2021
Canfor (excluding Vida and CPPI)		
Available operating loans:		
Operating loan facility	**$ 775.0**	$ 775.0
Revolving credit facility (US$150.0 million)	**205.6**	190.2
Facilities for letters of credit	**70.0**	70.0
Total operating loan facilities	**1,050.6**	1,035.2
Letters of credit	**(69.4)**	(67.8)
Total available operating loan facilities - Canfor	**$ 981.2**	$ 967.4
Vida		
Available operating loans:		
Operating loan facilities	**$ 62.5**	$ 71.3
Overdraft facilities	**41.2**	30.2
Total operating loan facilities	**103.7**	101.5
Operating loan facilities drawn	**(17.1)**	(18.7)
Total available operating loan facilities - Vida	**$ 86.6**	$ 82.8
CPPI		
Available operating loans:		
Operating loan facility	**$ 110.0**	$ 110.0
Letters of credit	**(12.9)**	(12.9)
Operating loan facility drawn	**(15.0)**	-
Total available operating loan facility - CPPI	**$ 82.1**	$ 97.1
Consolidated:		
Total operating loan facilities	**$ 1,264.3**	$ 1,246.7
Total operating loan facilities drawn	**$ (32.1)**	$ (18.7)
Total letters of credit	**$ (82.3)**	$ (80.7)
Total available operating loan facilities	**$ 1,149.9**	$ 1,147.3

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 LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio. Canfor's committed operating loan facility is repayable on October 27, 2026. On June 28, 2023, 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 June 28, 2031.

Canfor (excluding Vida and CPPI) has a separate facility to cover letters of credit. At September 30, 2022, $67.0 million of letters of credit outstanding are covered under this facility with the balance of $2.4 million covered under Canfor's general committed operating loan facility.

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 1.2% to 5.0%. Vida also has separate overdraft facilities with fixed interest rates ranging from 1.2% to 3.5%.

The terms of CPPI's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization and is based on lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin. CPPI's operating loan facility is repayable on December 15, 2025.

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 September 30, 2022, 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 September 30, 2022**		As at December 31, 2021
Canfor (excluding Vida and CPPI)				
US$50.0 million, floating interest, repayable on June 28, 2031	**$**	**68.5**	$	63.4
US$100.0 million, fixed interest of 4.4%, repayable in three equal tranches on October 2, 2023, 2024 and 2025		**137.1**		126.8
Other		**5.2**		4.6
Vida				
SEK 0.6 million, floating interest, repayable April 30, 2023		**0.1**		0.2
SEK 1.1 million, floating interest, repayable August 31, 2024		**0.1**		0.5
AUD$0.6 million, floating interest, repayable between October 1, 2022 and July 22, 2030		**0.5**		0.5
CPPI				
CAD$50.0 million, floating interest, repayable December 15, 2024		**50.0**		50.0
Term debt at end of period	**$**	**261.5**	$	246.0
Less: Current portion		**(0.2)**		(0.5)
Long-term portion	**$**	**261.3**	$	245.5

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 September 30, 2022, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their term debt.

Fair value of total term debt

At September 30, 2022, the fair value of the Company's term debt is $243.4 million (December 31, 2021 – $247.8 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 September 30, 2022, actuarial losses of $10.0 million (before tax) were recognized in other comprehensive income (loss), reflecting a lower discount rate used to value the net defined benefit obligations (comprised of defined benefit pension plans as well as other benefit plans), offset in part by a higher than anticipated return on plan assets. For the nine months ended September 30, 2022, actuarial gains of $42.6 million (before tax) were recognized in other comprehensive income (loss).

For the three months ended September 30, 2021, actuarial gains of $12.4 million (before tax) were recognized in other comprehensive income (loss), reflecting a higher than anticipated return on plan assets. For the nine months ended September 30, 2021, actuarial gains of $37.0 million (before tax) were recognized in other comprehensive income (loss).

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

	Defined Benefit Pension Plans	**Other Benefit Plans**
September 30, 2022	**4.8%**	**4.8%**
June 30, 2022	5.0%	5.0%
December 31, 2021	3.0%	3.0%
September 30, 2021	3.0%	3.0%
June 30, 2021	3.0%	3.0%
December 31, 2020	2.7%	2.7%

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 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 September 30, 2022**	As at December 31, 2021
Financial assets measured at fair value			
Investments	Level 1	**$ 31.5**	$ 36.1
Duty deposits recoverable, net (Note 4)	Level 3	**426.6**	188.4
		$ 458.1	$ 224.5
Financial liabilities measured at fair value			
Derivative financial instruments	Level 2	**$ 3.4**	$ 2.1
Put liability	Level 3	**159.3**	156.2
		$ 162.7	$ 158.3

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

	3 months ended September 30,		9 months ended September 30,	
(millions of Canadian dollars, unaudited)	**2022**	2021	**2022**	2021
Lumber futures	**$ 0.1**	$ 1.3	**$ 4.7**	$ (10.0)
Foreign exchange forward contracts	**(1.1)**	(0.2)	**(5.5)**	(1.5)
Gain (loss) on derivative financial instruments	**$ (1.0)**	$ 1.1	**$ (0.8)**	$ (11.5)

During the three and nine months ended September 30, 2022, a gain of $2.3 million and a loss of $23.6 million, respectively, were recognized in 'Other Equity' on the Company's condensed consolidated balance sheet following remeasurement of the put liability, reflecting a decrease in operating results, partly offset by the passage of time (three and nine months ended September 30, 2021 – losses of $4.1 million and $16.4 million, respectively). As a result of this remeasurement, combined with a foreign exchange gain of $4.7 million for the three months ended September 30, 2022, and a foreign exchange gain of $20.5 million for the nine months ended September 30, 2022 (three and nine months ended September 30, 2021 – loss of $0.3 million and gain of $11.9 million, respectively), the balance of the put liability was $159.3 million at September 30, 2022 (December 31, 2021 – $156.2 million).

8. Income Taxes

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

	3 months ended September 30,		9 months ended September 30,	
(millions of Canadian dollars, unaudited)	**2022**	2021	**2022**	2021
Current	**$ 27.1**	$ (65.2)	**$ (235.1)**	$ (483.5)
Deferred	**(59.1)**	(12.4)	**(100.0)**	7.7
Income tax expense	**$ (32.0)**	$ (77.6)	**$ (335.1)**	$ (475.8)

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

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2022	2021	9 months ended September 30, 2022	2021
Income tax expense at statutory rate of 27.0% (2021 – 27.0%)	**$ (37.4)**	$ (90.3)	**$ (385.5)**	$ (531.9)
Add (deduct):				
Non-taxable income related to non-controlling interests	**-**	-	**0.5**	0.2
Entities with different income tax rates and other tax adjustments	**7.2**	13.1	**52.1**	54.9
Permanent difference from capital gains and losses and other non-deductible items	**(1.8)**	(0.4)	**(2.2)**	1.0
Income tax expense	**$ (32.0)**	$ (77.6)	**$ (335.1)**	$ (475.8)

In addition to the amounts recorded to net income, a tax recovery of $2.7 million was recorded to other comprehensive income (loss) in relation to actuarial losses, net, on the defined benefit plans for the three months ended September 30, 2022 (three months ended September 30, 2021 – expense of $3.3 million). For the nine months ended September 30, 2022, a tax expense of $11.5 million was recorded to other comprehensive income (loss) in relation to actuarial gains, net, on the defined benefit plans (nine months ended September 31, 2021 – expense of $10.0 million).

9. Earnings Per Common Share and Normal Course Issuer Bid

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

	3 months ended September 30, 2022	2021	9 months ended September 30, 2022	2021
Weighted average number of common shares	**122,519,400**	124,740,288	**123,567,934**	125,048,005

On March 17, 2022, the Company announced that it has received regulatory approval for an early renewal of its normal course issuer bid whereby it can purchase for cancellation up to 6,224,680 common shares, or approximately 5% of its issued and outstanding common shares as at March 15, 2022. The renewed normal course issuer bid is set to expire on March 20, 2023.

During the three months ended September 30, 2022, no common shares were purchased by the Company, while $2.4 million was paid in relation to shares purchased in the prior quarter. During the nine months ended September 30, 2022, the Company purchased 1,974,200 common shares for $48.6 million (an average of $24.62 per common share).

As at September 30, 2022 and October 27, 2022, based on the trade date, there were 122,519,400 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

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2022	2021	9 months ended September 30, 2022	2021
Accounts receivable	**$ 99.1**	$ 86.1	**$ (1.5)**	$ (124.6)
Inventories	**77.9**	(130.7)	**106.5**	(202.8)
Prepaid expenses and other	**(1.9)**	10.9	**(14.7)**	(26.9)
Accounts payable and accrued liabilities and current portion of deferred reforestation obligations	**10.5**	64.5	**18.1**	118.9
Net change in non-cash working capital	**$ 185.6**	$ 30.8	**$ 108.4**	$ (235.4)

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 September 30, 2022					
Sales from contracts with customers	**$ 1,358.1**	**$ 308.3**	**$ -**	**$ -**	**$ 1,666.4**
Sales to other segments	**35.7**	**-**	**-**	**(35.7)**	**-**
Operating income (loss)	**101.6**	**19.2**	**(12.2)**	**-**	**108.6**
Amortization	**75.0**	**27.5**	**0.4**	**-**	**102.9**
Capital expenditures[1]	**109.4**	**28.5**	**0.9**	**-**	**138.8**
3 months ended September 30, 2021					
Sales from contracts with customers	$ 1,377.9	$ 298.7	$ -	$ -	$ 1,676.6
Sales to other segments	51.7	0.2	-	(51.9)	-
Operating income (loss)	326.1	15.8	(10.9)	-	331.0
Amortization	72.0	22.0	0.4	-	94.4
Capital expenditures[1]	112.1	14.3	2.1	-	128.5
9 months ended September 30, 2022					
Sales from contracts with customers	**$ 5,236.1**	**$ 817.3**	**$ -**	**$ -**	**$ 6,053.4**
Sales to other segments	**108.2**	**0.2**	**-**	**(108.4)**	**-**
Operating income (loss)	**1,436.7**	**(14.9)**	**(39.7)**	**-**	**1,382.1**
Amortization	**217.8**	**71.4**	**1.2**	**-**	**290.4**
Capital expenditures[1]	**245.8**	**84.6**	**2.8**	**-**	**333.2**
Identifiable assets	**4,140.6**	**855.2**	**2,108.1**	**-**	**7,103.9**
9 months ended September 30, 2021					
Sales from contracts with customers	$ 5,218.5	$ 895.1	$ -	$ -	$ 6,113.6
Sales to other segments	155.3	0.5	-	(155.8)	-
Operating income (loss)	1,933.3	71.7	(30.1)	-	1,974.9
Amortization	216.1	64.7	1.0	-	281.8
Capital expenditures[1]	186.4	62.7	3.8	-	252.9
Identifiable assets	3,705.8	939.2	1,722.7	-	6,367.7

[1]Capital expenditures represent cash paid for capital assets during the periods, excluding assets purchased as part of acquisitions. 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.

	3 months ended September 30,				9 months ended September 30,			
(millions of Canadian dollars, unaudited)		**2022**		2021		**2022**		2021
Sales by location of customer								
Canada	**12%**	**$ 194.5**	7%	$ 114.3	**10%**	**$ 643.2**	9%	$ 577.6
United States	**52%**	**864.9**	47%	793.2	**56%**	**3,371.6**	55%	3,363.2
Europe	**16%**	**271.0**	20%	331.6	**17%**	**1,019.9**	16%	961.2
Asia	**18%**	**304.3**	23%	391.4	**15%**	**894.9**	18%	1,083.5
Other	**2%**	**31.7**	3%	46.1	**2%**	**123.8**	2%	128.1
	100%	**$ 1,666.4**	100%	$ 1,676.6	**100%**	**$ 6,053.4**	100%	$ 6,113.6

12. Acquisitions

On March 1, 2022, Canfor completed the acquisition of Millar Western's solid wood operations and associated forest tenure for total consideration of $434.0 million, including $97.1 million in net working capital. Millar Western's solid wood operations, located in Alberta, Canada, consist of two sawmills and one high-value specialty facility and have an annual production capacity of 630 million board feet. The transaction was accounted for as a business combination under IFRS 3 *Business Combinations* ("IFRS 3") and is included in Canfor's lumber segment.

The following table summarizes the preliminary recognized amounts of net identifiable assets acquired by Canfor at the acquisition date:

(millions of Canadian dollars, unaudited)		
Property, plant and equipment	$	**235.5**
Timber licenses		**83.7**
Non-cash working capital, net (including inventory)		**97.1**
Goodwill		**29.5**
Deferred reforestation obligations		**(11.8)**
Total preliminary net identifiable assets	$	**434.0**

Following the completion of final review procedures related to the valuation of timber licenses, property, plant and equipment, preliminary amounts above may be revised.

The Company incurred acquisition-related costs of $4.1 million, primarily related to external legal fees and due diligence costs, which have been included in 'Selling and administration costs' in the condensed consolidated statement of income when incurred.

13. 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 September 30, 2022, Canfor has paid cumulative cash deposits of $878.2 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, 2022, the Company moved into the fifth period of review ("POR5"), which is based on sales and cost data in 2022. 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 2.42% until July 2022 and 0.95% thereafter, while ADD was expensed at an estimated rate of 5.00%. Despite cash deposits being made in 2022 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.

Also in January 2022, the DOC announced the preliminary results for the third period of review ("POR3"), which is based on sales and cost data in 2020, and in July 2022, finalized the rates. The Company's final CVD rate was determined to be 0.95% (versus a cash deposit rate of 13.24% from January to November 2020 and 2.63% for December 2020), while the final ADD rate was 4.92% (versus a cash deposit rate of 7.28% from January to November 2020 and 1.99% for December 2020, and estimated accrual rate of 5.00%).

A summary of the various combined rates is as follows:

Time Period	Deposit Rate	Accrued Rate	Final DOC Rate	Description
April 2017 – December 2018	20.52%	15.84%	4.62%	First Period of Review ("POR1")
January 2019 – December 2019	20.52%	29.24%	19.54%	Second Period of Review ("POR2")
January 2020 – November 2020	20.52%	18.24%	5.87%	POR3
December 2020	4.62%	7.63%	5.87%	POR3
January 2021 – November 2021	4.62%	9.63%	Anticipated in 2023	POR4
December 2021	19.54%	9.42%	Anticipated in 2023	POR4
January 2022 – July 2022	19.54%	7.42%	Anticipated in 2024	POR5
August 2022 – thereafter	5.87%	5.95%	Anticipated in 2024	POR5

Upon finalization of these POR3 rates, a net recovery of $97.6 million (US$73.0 million) was recognized in the Company's condensed consolidated statement of income for the three and nine months ended September 30, 2022, with a corresponding net receivable included in 'Long-term investments and other' (Note 4) on the Company's condensed consolidated balance sheet as at September 30, 2022, reflecting the difference between the combined accrual rates (18.24% from January to November 2020 and 7.63% for December 2020) and the DOC's final combined rate established for POR3 (5.87%).

The Company's current combined cash deposit rate of 19.54% was reset in August 2022 to the final rate of 5.87% as determined in POR3. This new cash deposit rate will apply to the Company's Canadian lumber shipments destined to the United States until completion of the administrative review for the fourth period of review ("POR4") (anticipated in 2023). Despite the reduced rates for POR3, no cash duties will be refunded to the Company until such time as the litigation regarding the imposition of CVD and ADD has been settled.

Summary

For accounting purposes, a net duty recoverable of $426.6 million is included on the Company's condensed consolidated 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 and nine months ended September 30, 2022, the Company recorded a net duty recovery of $77.0 million and $5.9 million, respectively, comprised of the following:

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2022**	9 months ended September 30, **2022**
Cash deposits paid	$ **28.6**	$ **195.7**
Duty recovery attributable to POR5 – combined CVD and ADD[2]	**(8.0)**	**(104.0)**
Duty recovery attributable to POR3 – combined CVD and ADD[3]	**(97.6)**	**(97.6)**
Duty recovery, net	$ **(77.0)**	$ **(5.9)**

[2] Reflects Canfor's combined accrual rate (7.42% until July 2022 and 5.95% thereafter) compared to the DOC's deposit rate (19.54% until July 2022 and 5.87% thereafter) for POR5.

[3] Reflects Canfor's combined accrual rate (18.24% from January to November 2020 and 7.63% for December 2020) compared to the DOC's final combined rate (5.87% for the entirety of 2020) for POR3.

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 statement of income 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 statement of income.