2023

QUARTER TWO

INTERIM REPORT

FOR THE THREE MONTHS ENDED JUNE 30, 2023

CANFOR CORPORATION

To Our Shareholders

Canfor Corporation ("The Company" or "Canfor") reported its second quarter of 2023 results[1]:

Overview

- Q2 2023 operating loss of $67 million including a $57 million reversal of a previously recognized inventory write-down; adjusted operating loss of $124 million; adjusted shareholder net loss of $44 million, or $0.36 per share
- Strong earnings continued at the Company's European and US South operations with persistent challenges in British Columbia
- Sustained pressure on global lumber market fundamentals and pricing, particularly in North America
- Increased North American lumber production & shipments despite ongoing curtailments in British Columbia and permanent closure of Chetwynd facilities and temporary closure of Houston sawmill
- Significant deterioration in global pulp market fundamentals; closure of the pulp line at Prince George Pulp and Paper Mill; subsequent to quarter-end, short curtailment of Northwood NBSK pulp mill amidst British Columbia port strike

Financial Results

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

(millions of Canadian dollars, except per share amounts)	**Q2 2023**	Q1 2023	**YTD 2023**	Q2 2022	YTD 2022
Sales	**$ 1,446.0**	$ 1,385.4	**$ 2,831.4**	$ 2,173.1	$ 4,387.0
Reported operating income (loss) before amortization	**$ 41.0**	$ (105.7)	**$ (64.7)**	$ 630.3	$ 1,461.0
Reported operating income (loss)	**$ (66.7)**	$ (208.5)	**$ (275.2)**	$ 531.6	$ 1,273.5
Adjusted operating income (loss) before amortization[1]	**$ (16.4)**	$ (43.6)	**$ (60.0)**	$ 630.8	$ 1,460.4
Adjusted operating income (loss)[1]	**$ (124.1)**	$ (146.4)	**$ (270.5)**	$ 532.1	$ 1,272.9
Net income (loss)[2]	**$ (43.9)**	$ (142.0)	**$ (185.9)**	$ 373.8	$ 907.8
Net income (loss) per share, basic and diluted[2]	**$ (0.36)**	$ (1.17)	**$ (1.54)**	$ 3.02	$ 7.32
Adjusted net income (loss)[1, 2]	**$ (44.3)**	$ (144.9)	**$ (189.2)**	$ 379.7	$ 908.7
Adjusted net income (loss) per share, basic and diluted[1, 2]	**$ (0.36)**	$ (1.20)	**$ (1.57)**	$ 3.07	$ 7.33

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

The Company reported an operating loss of $66.7 million for the second quarter of 2023, compared to an operating loss of $208.5 million in the first quarter of 2023. After taking into consideration a net $57.4 million reversal of a previously recognized inventory write-down, the Company's adjusted operating loss was $124.1 million for the second quarter of 2023, compared to an adjusted operating loss of $146.4 million for the first quarter of 2023. These results were driven by improved lumber segment earnings, offset in part by a decline in pulp and paper segment results.

Lumber Segment Highlights and Outlook

For the lumber segment, adjusted results increased $31.4 million quarter-over-quarter principally reflecting the benefit of global diversification, with strong earnings from the Company's European and US South operations. Results from the Company's Western Canadian operations continued to be challenging quarter-over-quarter driven largely by the ongoing high-cost operating environment in British Columbia ("BC"). For the quarter overall, results reflected generally weak lumber benchmark pricing, as a 7% decline in the average North American Random Lengths Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr was offset in part by stable Southern Yellow Pine ("SYP") East 2x4 #2 pricing, higher pricing for certain SYP wider-width dimension products and an uplift in European market pricing. These pricing factors were coupled with higher North American production and shipment volumes in the current period despite the ongoing market-related temporary downtime and sawmill closures in BC.

North American lumber market conditions faced continued downward pressure through most of the second quarter of 2023. While demand in the repair and remodeling sector remained strong in the current period, the housing sector experienced the ongoing effects of persistent inflation and high interest rates. Despite these affordability constraints and cautious prospective homeowners, residential construction activity increased modestly during the current quarter largely as a result of low existing home inventories.

Mixed demand trends coupled with a depletion of European inventories and corresponding influx of supply into the North American market, led to a decline in most North American US-dollar benchmark lumber prices early in the period. As the quarter progressed, however, declining European supply, accompanied by BC sawmill curtailments, resulted in some modest positive momentum in certain North American US-dollar benchmark pricing towards the end of the current quarter.

Offshore lumber demand and pricing to Asian markets remained weak throughout the second quarter of 2023. In China, despite the introduction of government stimulus measures, reduced consumption in the current period was met with an influx of supply from Europe and Russia that held inventories in that region at high levels. Demand in Japan was muted for most of the quarter but recovered slightly towards the end of the period as inventories began to move towards a more balanced range.

In Europe, lumber demand and pricing remained relatively stable in the second quarter of 2023, as a decline in residential construction activity and lower domestic supply was mitigated by increased activity in the do-it-yourself sector.

Looking ahead, the outlook for North America remains uncertain as positive longer-term lumber market fundamentals continue to be challenged by short-term affordability constraints. High interest rates are projected to endure through the third quarter of 2023, keeping existing home inventories at low levels of supply. It is anticipated that new home builders will continue to offer concessions, however, in an attempt to potentially relieve some affordability pressures for prospective homeowners. As a result, residential construction activity is projected to experience a slight improvement through the third quarter of 2023 as the underlying demand for housing in North America remains. In the do-it-yourself space, demand is forecast to slow towards the end of the third quarter, largely attributable to seasonal factors.

In terms of North American lumber supply, operational constraints in the current quarter, particularly in Western Canada led by market-related curtailments and wildfires, are anticipated to continue well into the third quarter of 2023. Currently, Canada is about halfway through the traditional wildfire season and already new records have been set in both Alberta and BC for total hectares burned. These extreme conditions are disrupting the Company's operations as well as access to fibre, harvesting and hauling activities. Management is and will continue to monitor the wildfire situation while working closely with local communities and Provincial wildfire associations. The Company will adjust operating rates, as needed, through the balance of 2023, as the full extent of the impact on its operations, including sustainable timber supplies and future harvesting plans will be assessed over the coming months.

In the US South, the ramp-up in production at the Company's greenfield facility in DeRidder, Louisiana, which commenced in the current quarter, is progressing better than anticipated, and is forecast to continue to improve through the balance of 2023.

Offshore lumber demand in Asia is forecast to experience a modest recovery in the second half of the year, particularly in China and Japan, following the gradual drawdown of high inventory levels, and supported by economic stimulus measures introduced by the Chinese Government.

European lumber pricing is anticipated to come under modest pressure in the third quarter of 2023 largely driven by reduced activity in the residential construction sector coupled with ongoing log supply constraints, offset to a degree by a seasonal uptick in the repair and remodeling segment.

Planning and technical work on the Houston, BC, facility redevelopment has been completed. Work to assess the availability of an adequate supply of economic fibre to support an investment of this size and scope is continuing. This work includes discussions with the Government of BC to seek assurances on the long-term fibre supply outlook for the region. Management hopes to conclude these discussions within the coming weeks.

Pulp and Paper Segment Highlights and Outlook

For the pulp and paper segment, the adjusted operating loss was $31.0 million for the second quarter of 2023, compared to an adjusted operating loss of $21.6 million for the first quarter of 2023. These results, for the most part, reflect the impact of substantial global pulp pricing declines in the current quarter driven by elevated global market pulp producer inventory levels and weak global softwood pulp demand.

In January 2023, Canfor Pulp Products Inc. ("CPPI") announced the decision to restructure its operating footprint to align its manufacturing capacity with the long-term supply of economic residual fibre and, as a result, in April 2023, CPPI wound down and permanently closed the pulp line at its Prince George ("PG") Northern Bleached Softwood Kraft ("NBSK") Pulp and Paper mill. In connection with this closure, CPPI's Intercontinental NBSK pulp mill ("Intercon") was successfully converted to provide slush pulp to its specialty paper facility. The combined impact of these operating structure changes is a reduction of approximately 280,000 tonnes of market kraft pulp production annually.

Global softwood pulp market fundamentals and pricing experienced considerable pressure during the second quarter of 2023 as tepid global demand was combined with rising global softwood pulp producer inventory levels. As a result, NBSK US-dollar list prices to China dropped sharply throughout the quarter to end June at a low of US$648 per tonne. For the current quarter overall, US-dollar NBSK pulp list prices to China averaged US$668 per tonne, down US$223 per tonne, or 25%, from the previous quarter. Prices to other global regions experienced less pronounced declines in the current period, with the average US-dollar NBSK pulp list price to North America at US$1,510 per tonne (before discounts), down US$165 per tonne, or 10%, from the prior quarter. Global softwood pulp producer inventories climbed substantially throughout the current quarter and, at the end of May 2023 were significantly above the balanced range at 54 days of supply, an increase of five days from March 2023. (Market conditions are generally considered balanced when inventories are within a normal range of 32-43 days of supply).

Looking forward, global softwood kraft pulp markets are anticipated to remain challenging through the third quarter of 2023, as record high global pulp producer inventory levels are projected to continue to be met with weak global pulp demand, particularly for paper and writing grades. In addition, the traditionally slower summer months are anticipated to further soften global pulp demand, particularly in the short-term. CPPI will continue to monitor the challenging market conditions and will adjust operating rates, if appropriate, through the balance of 2023.

The labour dispute at the Ports of Vancouver and Prince Rupert that commenced on July 1, 2023, put pressure on a constrained logistics network in BC. As a direct result, with pulp mill inventories at capacity, CPPI curtailed its Northwood NBSK pulp mill ("Northwood") in July for approximately one week, with an estimated 10,000 tonnes of reduced NBSK pulp production.

Results in the third quarter of 2023 are also forecast to reflect a scheduled maintenance outage at Northwood in September, with a projected 25,000 tonnes of reduced NBSK pulp production, as well as higher associated maintenance costs and lower projected shipment volume. As part of this outage, CPPI will complete an inspection of its assets at this facility, including the two recovery boilers, with the intention of formulating a re-investment plan for Northwood's recovery boiler number one ("RB1"), as well as the facility as a whole, that is focused on optimizing this mill for the long-term.

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)	**Q2 2023**	Q1 2023	**YTD 2023**	Q2 2022	YTD 2022
Reported operating income (loss)	**$ (66.7)**	$ (208.5)	**$ (275.2)**	$ 531.6	$ 1,273.5
Inventory write-down (recovery), net	**$ (57.4)**	$ 62.1	**$ 4.7**	$ 0.5	$ (0.6)
Adjusted operating income (loss)	**$ (124.1)**	$ (146.4)	**$ (270.5)**	$ 532.1	$ 1,272.9
Amortization	**$ 107.7**	$ 102.8	**$ 210.5**	$ 98.7	$ 187.5
Adjusted operating income (loss) before amortization	**$ (16.4)**	$ (43.6)	**$ (60.0)**	$ 630.8	$ 1,460.4

After-tax impact, net of non-controlling interests (millions of Canadian dollars)	**Q2 2023**	Q1 2023	**YTD 2023**	Q2 2022	YTD 2022
Net income (loss)[3]	**$ (43.9)**	$ (142.0)	**$ (185.9)**	$ 373.8	$ 907.8
Foreign exchange (gain) loss on term debt	**$ (6.7)**	$ (0.4)	**$ (7.1)**	$ 4.9	$ 1.9
(Gain) loss on derivative financial instruments	**$ 6.3**	$ (2.5)	**$ 3.8**	$ 1.0	$ (1.0)
Adjusted net income (loss)[3]	**$ (44.3)**	$ (144.9)	**$ (189.2)**	$ 379.7	$ 908.7

[3] Attributable to equity shareholders of the Company.

Canfor Corporation
Second Quarter 2023
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 June 30, 2023, relative to the quarters ended March 31, 2023 and June 30, 2022, and the financial position of the Company at June 30, 2023. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended June 30, 2023 and 2022, as well as the 2022 annual MD&A and the 2022 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2022 (available at www.canfor.com). The financial information contained in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income (Loss) before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Income (Loss) before Amortization, Asset Write-Downs and Impairments and Adjusted Operating Income (Loss) which Canfor considers to be a relevant indicator for measuring trends in the performance of each of its operating segments and the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. Reference is also made to Adjusted Shareholder Net Income (Loss) (calculated as Shareholder Net Income (Loss) less specific items affecting comparability with prior periods – for the full calculation, see the reconciliation included in the section "Selected Quarterly Financial information") and Adjusted Shareholder Net Income (Loss) per Share (calculated as Adjusted Shareholder Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Income (Loss) before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Income (Loss), Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share are not generally accepted earnings measures and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, Canfor's Operating Income (Loss) before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Income (Loss) before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Income (Loss), Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income (Loss) before Amortization, Asset Write-Downs and Impairments to Operating Income (Loss) and Adjusted Shareholder Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in the "Non-IFRS Financial Measures" section of this MD&A. Throughout this discussion, reference is made to the current quarter, which refers to the results for the second quarter of 2023.

Also in this interim MD&A, reference is made to net debt (cash), net debt (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 July 27, 2023.

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.

SECOND QUARTER 2023

Overview

(millions of Canadian dollars)	Q2 2023	Q1 2023	YTD 2023	Q2 2022	YTD 2022
Reported operating income (loss)	**$ (66.7)**	$ (208.5)	**$ (275.2)**	$ 531.6	$ 1,273.5
Inventory write-down (recovery), net	**$ (57.4)**	$ 62.1	**$ 4.7**	$ 0.5	$ (0.6)
Adjusted operating income (loss)	**$ (124.1)**	$ (146.4)	**$ (270.5)**	$ 532.1	$ 1,272.9
Amortization	**$ 107.7**	$ 102.8	**$ 210.5**	$ 98.7	$ 187.5
Adjusted operating income (loss) before amortization	**$ (16.4)**	$ (43.6)	**$ (60.0)**	$ 630.8	$ 1,460.4

Selected Financial Information and Statistics

(millions of Canadian dollars, except ratios)	Q2 2023	Q1 2023	YTD 2023	Q2 2022	YTD 2022
Operating income (loss) by segment:					
Lumber	**$ (15.5)**	$ (169.7)	**$ (185.2)**	$ 552.1	$ 1,335.1
Pulp and Paper	**$ (37.9)**	$ (25.2)	**$ (63.1)**	$ (8.1)	$ (34.1)
Unallocated and Other	**$ (13.3)**	$ (13.6)	**$ (26.9)**	$ (12.4)	$ (27.5)
Total operating income (loss)	**$ (66.7)**	$ (208.5)	**$ (275.2)**	$ 531.6	$ 1,273.5
Add: Amortization[1]	**$ 107.7**	$ 102.8	**$ 210.5**	$ 98.7	$ 187.5
Total operating income (loss) before amortization	**$ 41.0**	$ (105.7)	**$ (64.7)**	$ 630.3	$ 1,461.0
Add (deduct):					
Working capital movements	**$ 151.7**	$ (122.7)	**$ 29.0**	$ 208.8	$ (78.9)
Defined benefit plan contributions, net	**$ (15.4)**	$ (3.4)	**$ (18.8)**	$ (3.0)	$ (6.8)
Income taxes paid, net	**$ (17.9)**	$ (57.2)	**$ (75.1)**	$ (113.0)	$ (321.0)
Adjustment to accrued duties[2]	**$ 22.6**	$ 19.4	**$ 42.0**	$ (45.3)	$ (96.0)
Other operating cash flows, net[3]	**$ 1.8**	$ 43.3	**$ 45.1**	$ (0.4)	$ 23.1
Cash from (used in) operating activities	**$ 183.8**	$ (226.3)	**$ (42.5)**	$ 677.4	$ 981.4
Add (deduct):					
Capital additions, net	**$ (142.4)**	$ (79.6)	**$ (222.0)**	$ (113.1)	$ (208.7)
Finance expenses paid	**$ (10.8)**	$ (5.6)	**$ (16.4)**	$ (6.4)	$ (9.8)
Proceeds from (repayments of) term debt, net	**$ (50.1)**	$ 0.1	**$ (50.0)**	$ (0.1)	$ (0.2)
Share purchases	**$ (11.5)**	$ (11.1)	**$ (22.6)**	$ (40.5)	$ (46.2)
Acquisition of Millar Western	**$ -**	$ -	**$ -**	$ (15.9)	$ (434.0)
Distributions to non-controlling interests	**$ (61.9)**	$ -	**$ (61.9)**	$ (60.9)	$ (61.1)
Foreign exchange loss on cash and cash equivalents	**$ (40.3)**	$ 1.8	**$ (38.5)**	$ (8.2)	$ (32.8)
Other, net[3]	**$ 1.5**	$ 7.8	**$ 9.3**	$ (1.2)	$ (7.8)
Change in cash / operating loans	**$ (131.7)**	$ (312.9)	**$ (444.6)**	$ 431.1	$ 180.8
ROIC – Consolidated period-to-date[4]	**(1.5)%**	(4.8)%	**(6.3)%**	12.6%	32.4%
Average exchange rate (US$ per C$1.00)[5]	**$ 0.745**	$ 0.740	**$ 0.742**	$ 0.783	$ 0.787
Average exchange rate (SEK per C$1.00)[5]	**7.833**	7.726	**7.779**	7.708	7.534

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

Analysis of Specific Material Items Affecting Comparability of Shareholder Net Income (Loss)

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	Q2 2023	Q1 2023	YTD 2023	Q2 2022	YTD 2022
Shareholder net income (loss), as reported	**$ (43.9)**	$ (142.0)	**$ (185.9)**	$ 373.8	$ 907.8
Foreign exchange (gain) loss on term debt	**$ (6.7)**	$ (0.4)	**$ (7.1)**	$ 4.9	$ 1.9
(Gain) loss on derivative financial instruments	**$ 6.3**	$ (2.5)	**$ 3.8**	$ 1.0	$ (1.0)
Net impact of above items	**$ (0.4)**	$ (2.9)	**$ (3.3)**	$ 5.9	$ 0.9
Adjusted shareholder net income (loss)[6]	**$ (44.3)**	$ (144.9)	**$ (189.2)**	$ 379.7	$ 908.7
Shareholder net income (loss) per share (EPS), as reported	**$ (0.36)**	$ (1.17)	**$ (1.54)**	$ 3.02	$ 7.32
Net impact of above items per share	**$ -**	$ (0.03)	**$ (0.03)**	$ 0.05	$ 0.01
Adjusted shareholder net income (loss) per share[6]	**$ (0.36)**	$ (1.20)	**$ (1.57)**	$ 3.07	$ 7.33

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

The Company reported an operating loss of $66.7 million for the second quarter of 2023, compared to an operating loss of $208.5 million in the first quarter of 2023. After taking into consideration a net $57.4 million reversal of a previously recognized inventory write-down, the Company's adjusted operating loss was $124.1 million for the second quarter of 2023, compared to an adjusted operating loss of $146.4 million for the first quarter of 2023. These results were driven by improved lumber segment earnings, offset in part by a decline in pulp and paper segment results.

For the lumber segment, adjusted results increased $31.4 million quarter-over-quarter principally reflecting the benefit of global diversification, with strong earnings from the Company's European and US South operations. Results from the Company's Western Canadian operations continued to be challenging quarter-over-quarter driven largely by the ongoing high-cost operating environment in British Columbia ("BC"). For the quarter overall, results reflected generally weak lumber benchmark pricing, as a 7% decline in the average North American Random Lengths Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr was offset in part by stable Southern Yellow Pine ("SYP") East 2x4 #2 pricing, higher pricing for certain SYP wider-width dimension products and an uplift in European market pricing. These pricing factors were coupled with higher North American production and shipment volumes in the current period despite the ongoing market-related temporary downtime and sawmill closures in BC.

For the pulp and paper segment, the adjusted operating loss was $31.0 million for the second quarter of 2023, compared to an adjusted operating loss of $21.6 million for the first quarter of 2023. These results, for the most part, reflect the impact of substantial global pulp pricing declines in the current quarter driven by elevated global market pulp producer inventory levels and weak global softwood pulp demand.

In January 2023, Canfor Pulp Products Inc. ("CPPI") announced the decision to restructure its operating footprint to align its manufacturing capacity with the long-term supply of economic residual fibre and, as a result, in April 2023, CPPI wound down and permanently closed the pulp line at its Prince George ("PG") Northern Bleached Softwood Kraft ("NBSK") Pulp and Paper mill. In connection with this closure, CPPI's Intercontinental NBSK pulp mill ("Intercon") was successfully converted to provide slush pulp to its specialty paper facility. The combined impact of these operating structure changes is a reduction of approximately 280,000 tonnes of market kraft pulp production annually.

Compared to the second quarter of 2022, adjusted operating results were down $656.2 million from adjusted operating income of $532.1 million in the comparative period, consisting of a $631.9 million decrease in lumber segment earnings and a $23.4 million decrease in pulp and paper segment results.

Lower earnings in the lumber segment were principally due to a material decline in global lumber market prices from the high levels in the comparative period, combined with lower production and shipments in Western Canada and Europe in the current quarter. These factors were offset in part by improved shipments and production in the US South, and a 4 cent, or 5%, weaker Canadian dollar (versus the US-dollar) in the current period.

For the pulp and paper segment, compared to the second quarter of 2022, adjusted operating results declined $23.4 million, primarily reflecting significantly lower US-dollar NBSK pulp list prices, and, to a lesser extent, reduced production and shipment volumes in the current quarter, partially offset by the 5%, weaker Canadian dollar.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q2 2023	Q1 2023	YTD 2023	Q2 2022	YTD 2022
Sales[7]	**$ 1,196.5**	$ 1,142.1	**$ 2,338.6**	$ 1,884.3	$ 3,878.0
Operating income (loss) before amortization[7]	**$ 69.0**	$ (92.2)	**$ (23.2)**	$ 626.6	$ 1,477.9
Operating income (loss)[7]	**$ (15.5)**	$ (169.7)	**$ (185.2)**	$ 552.1	$ 1,335.1
Inventory write-down (recovery), net	**$ (64.3)**	$ 58.5	**$ (5.8)**	$ -	$ -
Adjusted operating income (loss)[8]	**$ (79.8)**	$ (111.2)	**$ (191.0)**	$ 552.1	$ 1,335.1
Average WSPF 2x4 #2&Btr lumber price in US$[9]	**$ 358**	$ 386	**$ 372**	$ 866	$ 1,070
Average WSPF 2x4 #2&Btr lumber price in Cdn$[9,11]	**$ 481**	$ 522	**$ 501**	$ 1,106	$ 1,360
Average SYP 2x4 #2 lumber price in US$[10]	**$ 486**	$ 485	**$ 486**	$ 769	$ 1,070
Average SYP 2x4 #2 lumber price in Cdn$[10,11]	**$ 652**	$ 655	**$ 655**	$ 983	$ 1,360
Average SYP 2x6 #2 lumber price in US$[10]	**$ 385**	$ 420	**$ 403**	$ 556	$ 829
Average SYP 2x6 #2 lumber price in Cdn$[10,11]	**$ 517**	$ 568	**$ 543**	$ 710	$ 1,053
US housing starts (thousand units SAAR)[12]	**1,447**	1,385	**1,416**	1,636	1,677
Production – WSPF lumber (MMfbm)[13]	**542**	531	**1,073**	658	1,310
Production – SYP lumber (MMfbm)[13]	**428**	410	**838**	409	829
Production – European lumber (MMfbm)[13]	**344**	373	**717**	366	742
Shipments – WSPF lumber (MMfbm)[14]	**578**	497	**1,075**	681	1,266
Shipments – SYP lumber (MMfbm)[14]	**435**	404	**839**	423	822
Shipments – European lumber (MMfbm)[14]	**393**	439	**832**	424	847

[7] Q2 2023 includes sales of $357.7 million, operating income of $37.3 million, and operating income before amortization of $54.4 million from European operations (Q1 2023 – sales of $364.5 million, operating income of $31.2 million, and operating income before amortization of $48.3 million; Q2 2022 – sales of $506.6 million, operating income of $173.1 million, and operating income before amortization of $189.7 million). Operating income from the European operations in Q2 2023 includes $9.2 million in incremental amortization and other expenses driven by the purchase price allocation at acquisition (Q1 2023 - $9.3 million; Q2 2022 - $9.3 million).
[8] Adjusted operating income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[9] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[10] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[11] Average lumber prices in Cdn$ calculated as average price in US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average for the period.
[12] Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").
[13] Excluding production of trim blocks.
[14] Includes Canfor produced lumber, as well as lumber purchased for resale, remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

Markets

North American lumber market conditions faced continued downward pressure through most of the second quarter of 2023. While demand in the repair and remodeling sector remained strong in the current period, the housing sector experienced the ongoing effects of persistent inflation and high interest rates. Despite these affordability constraints and cautious prospective homeowners, residential construction activity increased modestly during the current quarter largely as a result of low existing home inventories.

US housing starts averaged 1,447,000 units on a seasonally adjusted basis for the current quarter, up 4% from the previous quarter, reflecting an 11% increase in single-family starts offset by a 6% decrease in multi-family starts. Notwithstanding the uptick in US housing starts, the proportion of single-family units, which consume approximately three times the volume of lumber compared to multi-family units, remained at lower levels. In Canada, housing starts averaged 247,000 units on a seasonally adjusted basis in the second quarter of 2023, up 11% from the previous quarter primarily reflecting a 20% increase in the construction of multi-family homes, particularly in major metropolitan areas, offset by a 7% decline in single-family starts.

Mixed demand trends coupled with a depletion of European inventories and corresponding influx of supply into the North American market, led to a decline in most North American US-dollar benchmark lumber prices early in the period. As the quarter progressed, however, declining European supply accompanied by BC sawmill curtailments resulted in some modest positive momentum in certain North American US-dollar benchmark pricing towards the end of the current quarter.

Offshore lumber demand and pricing to Asian markets remained weak throughout the second quarter of 2023. In China, despite the introduction of government stimulus measures, reduced consumption in the current period was met with an influx of supply from Europe and Russia that held inventories in that region at high levels. Demand in Japan was muted for most of the quarter but recovered slightly towards the end of the period as inventories began to move towards a more balanced range.

In Europe, lumber demand and pricing remained relatively stable in the second quarter of 2023, as a decline in residential construction activity and lower domestic supply was mitigated by increased activity in the do-it-yourself sector.

Sales

Sales revenues for the lumber segment for the second quarter of 2023 were $1,196.5 million, up $54.4 million compared to the previous quarter and down $687.8 million from the second quarter of 2022. The 5% increase in sales revenue over the prior quarter largely reflected a 12% increase in North American shipment volumes and an uplift in lumber unit sales realizations in the US South and Europe. These factors were offset in part by a 10% decline in European shipments and moderately lower Western SPF unit sales realizations quarter-over-quarter.

Compared to the second quarter of 2022, sales revenues decreased by 37%, predominantly tied to a material decline in global lumber market prices from the unprecedented highs experienced in the comparative period. This pricing drop was coupled with a significant reduction in Western SPF and European shipment volumes, offset in part by modestly higher SYP shipments and the 5% weaker Canadian dollar (versus the US-dollar) in the current quarter.

Total lumber shipments, at 1.41 billion board feet, were 5% higher than the previous quarter primarily reflecting a drawdown of finished inventory in North America in the current period, and to a lesser extent, increased production in that region, offset in part by lower production in Europe.

Compared to the second quarter of 2022, total lumber shipments declined 8%, as a modest uplift in SYP shipments was more than outweighed by reductions in Western SPF and European shipments, all attributable to production movements quarter-over-quarter.

The average North American Random Lengths Western SPF 2x4 #2&Btr price began April at a low of US$335 per Mfbm in April and remained close to US$350 per Mfbm until mid-June, when it experienced a slight increase late in the month to end the period at US$420 per Mfbm. For the current quarter overall, the North American Random Lengths Western SPF 2x4 #2&Btr price averaged US$358 per Mfbm, down US$28 per Mfbm, or 7%, from the previous quarter. The Company's Western SPF unit sales realizations principally reflected this decline in US-dollar benchmark pricing, as unfavourable offshore unit sales realizations (most notably Japan) were offset by improved pricing for certain low-grade products.

The average North American SYP East 2x4 #2 price opened the quarter at a high of US$545 per Mfbm and held at this level for most of April before declining gradually through the remainder of the quarter, ending the period at US$405 per Mfbm. Overall, the SYP East 2x4 #2 price averaged US$486 per Mfbm in the second quarter, in line with the previous quarter, while the SYP East 2x6 #2 price averaged US$385 per Mfbm, down US$35 per Mfbm, or 8%, from the prior period. Despite the decline in the SYP East 2x6 #2 price, the Company's SYP unit sales realizations saw a moderate increase quarter-over-quarter largely due to an uptick in pricing for certain wider-width dimension products.

The Company's European lumber unit sales realizations were moderately higher than the previous quarter principally related to improved lumber market pricing in Europe and the United Kingdom, moderated to a degree, by a 1% stronger Canadian dollar (versus the SEK).

Compared to the second quarter of 2022, the Company's lumber unit sales realizations were substantially lower in all three operating regions, principally due to the considerable decline in global lumber market prices from near-record highs in the comparative period. The Company's Western SPF unit sales realizations reflected a US$508 per Mfbm, or 59%, drop in the average North American Random Lengths Western SPF 2x4 #2&Btr price, mitigated somewhat by the weaker Canadian dollar (versus the US-dollar) in the current quarter. Similarly, the Company's SYP unit sales realizations were driven by a US$283 per Mfbm, or 37%, fall in the average SYP East 2x4 #2 price over the comparative period, with similar declines experienced for wider-width dimension products, including the SYP East 2x6 #2 price which decreased US$171 per Mfbm, or 31%, quarter-over-quarter. The Company's European unit sales realizations also reflected the substantial decline in global lumber market prices, including European market pricing, from the same period in the prior year.

Other revenues for the Company's lumber segment (which are primarily comprised of residual fibre, pulp log and pellets sales, as well as the Company's European operations' other related revenues) increased moderately compared to the previous quarter, primarily driven by an uplift in log sales and building component revenue in Europe (timing-related), and, to a lesser extent, an increase in engineered wood sales in the US South. These factors were offset in part by lower log sales in Western Canada. Compared to the second quarter of 2022, other revenues experienced a slight increase, largely reflecting higher residual fibre revenues in Europe, offset in part by a reduction in log and pellets sales in Western Canada.

Operations

Total lumber production, at 1.31 billion board feet, was consistent with the previous quarter as a 3% increase in North American production was offset by an 8% reduction in European production. In Western Canada, production was up 2% quarter-over-quarter as the benefit of reduced market-driven curtailments in the current quarter (approximately 170 million board feet in the current period versus 240 million board feet in the prior quarter) was offset in part by reduced production tied to the permanent closure of the Company's Chetwynd facilities, temporary closure of its Houston sawmill in April as well as a three-week shutdown of the Company's Fox Creek sawmill in May in response to the wildfires in Alberta. In the US South, a 4% increase in production was largely attributable to the ramp-up of the Company's greenfield sawmill in DeRidder, Louisiana, and to a lesser extent, operational efficiencies in the current period. In Europe, decreased production quarter-over-quarter was principally a result of an increase in statutory holidays in the current period combined with intermittent log availability in the region, primarily correlated to reduced log supply from Russia.

Compared to the second quarter of 2022, total lumber production was down 8%, largely driven by an 18% reduction in Western SPF production as well as lower European lumber production in the current quarter. These decreases were moderated, in part, by an uplift in SYP production mostly attributed to the start-up of the Company's newly constructed DeRidder sawmill in early 2023. Western SPF production decreased from the same period in the prior year primarily as a result of more significant temporary capacity reductions in the current quarter combined with the permanent and temporary closures of Chetwynd and Houston, respectively. Lower European production principally reflected the impact of limited log availability in that region in the current period.

Lumber unit manufacturing and product costs were down slightly from the previous quarter primarily driven by the combined benefit of lower per-unit cash conversion and log costs in the current quarter. Reduced per-unit conversion costs were largely the result of increased North American production volumes quarter-over-quarter combined with reduced cash spend associated with the permanent and temporary closures of Chetwynd and Houston, respectively, in April. Lower log costs in the current period were primarily driven by reduced market-based stumpage in Western Canada (tied to the drop in Western SPF benchmark lumber prices quarter-over-quarter), as well as slight pricing relief in the US South due in part to lower fuel costs. These log cost reductions were offset in part by market-based log price increases in Europe stemming from log supply constraints.

Lumber unit manufacturing costs were broadly in line with the second quarter of 2022, as an uplift in per-unit cash conversion costs were offset by lower log costs in the current period. The increase in per-unit cash conversion costs were most notable in the US South and primarily reflected the impact of inflationary pressures. These increases were offset in part by reduced per-unit cash conversion costs in Western Canada largely attributable to reduced spend. Log costs were slightly lower in the current period principally due to lower BC stumpage and purchased wood costs, moderated, to a degree, by market-based pricing increases in the US South and Europe.

Pulp and Paper

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

(millions of Canadian dollars, unless otherwise noted)	Q2 2023	Q1 2023	YTD 2023	Q2 2022	YTD 2022
Sales	**$ 249.5**	$ 243.3	**$ 492.8**	$ 288.8	$ 509.0
Operating income (loss) before amortization[16]	**$ (15.3)**	$ (0.6)	**$ (15.9)**	$ 15.7	$ 9.8
Operating income (loss)	**$ (37.9)**	$ (25.2)	**$ (63.1)**	$ (8.1)	$ (34.1)
Inventory write-down (recovery), net	**$ 6.9**	$ 3.6	**$ 10.5**	$ 0.5	$ (0.6)
Adjusted operating loss[17]	**$ (31.0)**	$ (21.6)	**$ (52.6)**	$ (7.6)	$ (34.7)
Average NBSK pulp price delivered to China – US$[18]	**$ 668**	$ 891	**$ 780**	$ 1,008	$ 954
Average NBSK pulp price delivered to China – Cdn$[18]	**$ 897**	$ 1,204	**$ 1,051**	$ 1,287	$ 1,213
Production – pulp (000 mt)	**151**	181	**332**	187	363
Production – paper (000 mt)	**30**	34	**64**	33	67
Shipments – pulp (000 mt)	**179**	152	**331**	205	381
Shipments – paper (000 mt)	**32**	35	**67**	34	65

[15] Includes 100% of Canfor Pulp Products Inc., which is consolidated in Canfor's operating results. Pulp production and shipment volumes in 2023 include NBSK pulp, and in 2022, also include Bleached Chemi-Thermo Mechanical Pulp ("BCTMP").
[16] Amortization includes amortization of certain capitalized major maintenance costs.
[17] Adjusted operating loss is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[18] Per tonne, NBSK pulp list net price delivered to China (as published by Resource Information Systems, Inc. ("RISI")); Average NBSK pulp list net price delivered to China in Cdn$ calculated as average NBSK pulp list net price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.

Markets

Global softwood pulp market fundamentals and pricing experienced considerable pressure during the second quarter of 2023 as tepid global demand was combined with rising global softwood pulp producer inventory levels. As a result, NBSK US-dollar list prices to China dropped sharply throughout the quarter to end June at a low of US$648 per tonne. For the current quarter overall, US-dollar NBSK pulp list prices to China averaged US$668 per tonne, down US$223 per tonne, or 25%, from the previous quarter and down US$340 per tonne, or 34%, from the second quarter of 2022. Prices to other global regions experienced less pronounced declines in the current period, with the average US-dollar NBSK pulp list price to North America at US$1,510 per tonne (before discounts), down US$165 per tonne, or 10%, from the prior quarter. Compared to the same period in the prior year, pulp list prices to North America were down US$233 per tonne, or 13%.

Global softwood pulp producer inventories climbed substantially throughout the current quarter and, at the end of May 2023 were significantly above the balanced range at 54 days[19] of supply, an increase of five days from March 2023. (Market conditions are generally considered balanced when inventories are within a normal range of 32-43 days of supply).

Global kraft paper market demand remained solid early in the second quarter of 2023. As the quarter progressed, however, inflationary pressures and rising global kraft paper inventory levels led to a softening in global kraft paper markets later in the current period.

Sales

Pulp shipments for the second quarter of 2023 totaled 179,000 tonnes, up 27,000 tonnes, or 18%, from the previous quarter, and down 26,000 tonnes, or 13%, from the second quarter of 2022. Pulp shipments in the current quarter largely reflected a drawdown of inventory levels following the closure of the pulp line at PG in early April. Compared to the second quarter of 2022, the decrease in pulp shipments primarily reflected the 19% reduction in pulp production, offset in part by the timing of vessels quarter-over-quarter.

CPPI's average NBSK pulp unit sales realizations experienced a significant decrease compared to the previous quarter, principally driven by the deterioration in global pulp market conditions through the current quarter, and the associated 25% decline in US-dollar NBSK pulp list pricing to China, mitigated to a degree, by a favourable timing lag in shipments (versus orders). Compared to the second quarter of 2022, CPPI's average NBSK pulp unit sales realizations saw a moderate decline, as the aforementioned downward pressure on global US-dollar pulp list pricing was offset somewhat by the 5% weaker Canadian dollar.

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

Paper shipments in the second quarter of 2023 were 32,000 tonnes, down 3,000 tonnes from the previous quarter, and down 2,000 tonnes from the second quarter of 2022, largely reflecting the timing of shipments around quarter-end compared to both comparative periods, offset in part by reduced paper production in the current period, tied to the planned scheduled downtime.

Paper unit sales realizations in the second quarter of 2023 were broadly in line with the previous quarter, as a slight uplift in global US-dollar paper pricing was offset by the 1% stronger Canadian dollar quarter-over-quarter. Compared to the second quarter of 2022, paper unit sales realizations experienced a moderate increase, primarily driven by an improvement in US-dollar pricing quarter-over-quarter, especially to North American markets, combined with the weaker Canadian dollar.

Operations

Pulp production was 151,000 tonnes for the second quarter of 2023, down 30,000 tonnes, or 17%, from the first quarter of 2023, and down 36,000 tonnes, or 19%, compared to the same period in the prior year, mainly due to the aforementioned operating platform changes, and, to a lesser extent, operational challenges at CPPI's Northwood NBSK pulp mill ("Northwood") in the current period.

In the first quarter of 2023, CPPI's Intercon pulp mill started the year curtailed as a result of ongoing fibre shortages, which reduced NBSK pulp production by approximately 35,000 tonnes. While challenges with operational reliability persisted throughout the quarter, and impacted NBSK pulp production by approximately 30,000 tonnes, the operating performance at Intercon and Northwood improved as the first quarter progressed.

In the comparative 2022 period, pulp production was principally impacted by the completion in mid-April of the Northwood recovery boiler number one ("RB1") capital upgrade (approximately 10,000 tonnes), as well as a scheduled maintenance outage at Northwood which commenced in June and was completed mid-July (approximately 30,000 tonnes in the second quarter of 2022 and a further 16,000 tonnes in July 2022).

Pulp unit manufacturing costs were moderately lower in the current quarter compared to the first quarter of 2023, principally reflecting seasonally lower energy usage combined with reduced chemical costs in the current period. Fibre costs showed a modest decline, as lower market-based prices for sawmill residual chips (linked to lower Canadian dollar NBSK pulp sales realizations) were combined with a reduction in the proportion of higher-cost whole log chips quarter-over-quarter. Compared to the second quarter of 2022, pulp unit manufacturing costs were modestly lower, as increased fibre costs tied to a larger proportion of higher-cost whole log chips, were more than offset by reduced energy costs in the current period.

Paper production for the second quarter of 2023 was 30,000 tonnes, down 4,000 tonnes from the previous quarter and down 3,000 tonnes from the same period in the prior year, principally reflecting the scheduled maintenance outage at CPPI's paper machine in the current quarter.

Paper unit manufacturing costs were broadly in line with the first quarter of 2023, as a significant reduction in slush pulp costs (tied to the notable decline in Canadian dollar NBSK pulp unit sales realizations), was offset by higher energy costs in the current period following the closure of CPPI's PG pulp mill in April 2023, and, to a lesser extent, increased spend on operating supplies (timing-related). Compared to the second quarter of 2022, paper unit manufacturing costs saw a moderate increase, largely driven by the aforementioned uplift in conversion costs quarter-over-quarter.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)	**Q2 2023**	Q1 2023	**YTD 2023**	Q2 2022	YTD 2022
Corporate costs	**$ (13.3)**	$ (13.6)	**$ (26.9)**	$ (12.4)	$ (27.5)
Finance income (expense), net	**$ (0.9)**	$ 3.0	**$ 2.1**	$ (3.3)	$ (7.6)
Foreign exchange gain on term debt and duties recoverable, net	**$ 0.5**	$ 0.5	**$ 1.0**	$ 2.0	$ 2.5
Gain (loss) on derivative financial instruments	**$ (10.6)**	$ 3.5	**$ (7.1)**	$ (2.6)	$ 0.2
Other income, net	**$ 6.7**	$ 4.7	**$ 11.4**	$ 14.6	$ 20.5

Corporate costs were $13.3 million for the second quarter of 2023, down $0.3 million from the previous quarter primarily reflecting lower legal costs associated with the softwood lumber dispute, offset in part by higher head office and general administrative expenses in the current period. Compared to the second quarter of 2022, corporate costs were up $0.9 million as a result of increased head office and general administrative expenses in the current quarter.

Net finance expense of $0.9 million for the second quarter of 2023 was up $3.9 million from the previous quarter, largely due to an uplift in interest expense associated with letters of credit and the Company's operating loan facility as well as a facility fee related to the renegotiation of CPPI's operating loan and term debt facilities, partially offset by an increase in interest income on US-dollar short-term investments quarter-over-quarter. Net finance expense of $3.3 million in the second quarter of 2022 primarily consisted of interest expense and, to a lesser extent, pension financing costs, offset to a degree, by interest income on US-dollar short-term investments and accrued interest income on recoverable duty deposits.

In the second quarter of 2023, the Company recognized a foreign exchange gain of $7.7 million on its US-dollar term debt held by Canadian entities due to the strengthening of the Canadian dollar at the close of the current quarter compared to the end of March 2023 (see further discussion on the term debt financing in the "Liquidity and Financial Requirements" section), offset by a loss of $7.2 million on its US-dollar denominated net duty deposits recoverable.

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 second quarter of 2023, the Company recorded a loss of $10.6 million related to its derivative instruments, primarily reflecting mark-to-market losses (both realized and unrealized) on SEK foreign exchange forward contracts and to a lesser extent, lumber futures contracts.

Other income, net, of $6.7 million in the second quarter of 2023 primarily reflected CPPI's receipt of insurance proceeds related to operational downtime experienced at Northwood in recent years, combined with 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)	**Q2 2023**	Q1 2023	**YTD 2023**	Q2 2022	YTD 2022
Defined benefit plan actuarial gains, net of tax	**$ 3.8**	$ 9.6	**$ 13.4**	$ 13.6	$ 38.4
Foreign exchange translation differences for foreign operations, net of tax	**$ (102.6)**	$ 4.2	**$ (98.4)**	$ (22.5)	$ (88.4)
Other comprehensive income (loss), net of tax	**$ (98.8)**	$ 13.8	**$ (85.0)**	$ (8.9)	$ (50.0)

In the second quarter of 2023, the Company recorded a gain of $5.1 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), principally reflecting a 0.1% increase in the discount rate and a higher than anticipated return on plan assets. This compared to a gain of $13.1 million (before tax) in the first quarter of 2023, primarily due to a higher than anticipated return on plan assets. In the second quarter of 2022, the Company recorded a gain of $18.6 million (before tax), largely driven by a 1.2% increase in the discount rate used to value the employee future benefit plans, 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 addition, the Company recorded an accounting loss of $102.6 million in the second quarter of 2023 related to foreign exchange differences for foreign operations due to the strengthening of the Canadian dollar relative to the SEK and the US-dollar at the end of the quarter. This compared to a gain of $4.2 million in the first quarter of 2023 and a loss of $22.5 million in the second quarter of 2022.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except ratios)	Q2 2023	Q1 2023	YTD 2023	Q2 2022	YTD 2022
Increase (decrease) in cash and cash equivalents[20]	**$ (48.8)**	$ (320.7)	**$ (369.5)**	$ 434.5	$ 211.7
Operating activities	**$ 183.8**	$ (226.3)	**$ (42.5)**	$ 677.4	$ 981.4
Financing activities	**$ (98.7)**	$ (30.3)	**$ (129.0)**	$ (117.0)	$ (129.5)
Investing activities	**$ (133.9)**	$ (64.1)	**$ (198.0)**	$ (125.9)	$ (640.2)
Ratio of current assets to current liabilities	**3.0:1**	3.2:1	**3.0:1**	3.3:1	3.3:1
Net cash to total capitalization[21]	**(15.6)%**	(16.9)%	**(15.6)%**	(35.8)%	(35.8)%
Cumulative duty deposits paid	**$ 908.7**	$ 897.7	**$ 908.7**	$ 849.6	$ 849.6

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

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

Operating Activities

Cash generated from operating activities was $183.8 million in the second quarter of 2023, compared to cash used of $226.3 million in the previous quarter and cash generated of $677.4 million in the second quarter of 2022. The $410.1 million increase in operating cash flows from the previous quarter primarily reflected favourable movements in non-cash working capital balances as well as higher cash earnings in the current quarter. The former was largely due to a seasonal drawdown of log inventories in the current period, as well as a depletion of finished inventories on hand quarter-over-quarter and lower accounts receivable, partially offset by a timing-related decrease in accounts payable and accrued liabilities at the end of the current period. Compared to the second quarter of 2022, operating cash flows were down $493.6 million, largely due to lower cash earnings in the current period.

Financing Activities

Cash used for financing activities in the second quarter of 2023 was $98.7 million, compared to $30.3 million in the previous quarter and $117.0 million in the second quarter of 2022. Financing activities in the current quarter primarily reflected $61.9 million of cash distributions to non-controlling interests (refer to the "Liquidity and Financial Requirements" section for further details), $11.5 million of share purchases, and to a lesser extent, lease and interest payments. Current quarter finance activities also included the conversion of CPPI's $50.0 million term debt into its existing operating loan facility, and a $5.0 million net repayment of its operating loan facility. In the first quarter of 2023, financing activities largely consisted of share repurchases, lease and interest payments. In the second quarter of 2022, financing activities primarily reflected $60.9 million of cash distributions to non-controlling interests combined with $40.5 million of share purchases, and to a lesser amount, lease and interest payments.

Investing Activities

Cash used for investing activities was $133.9 million for the current quarter, compared to $64.1 million for the previous quarter and $125.9 million for the same quarter of 2022. Investing activities in the current quarter and other comparable periods were largely comprised of capital additions.

Capital additions in the second quarter of 2023 were $142.4 million, up $62.8 million from the previous quarter and up $29.3 million from the second quarter of 2022. In the lumber segment, current quarter capital expenditures primarily reflected ongoing spend related to the upgrade and expansion of the Company's Urbana sawmill in Arkansas, the construction of the Company's greenfield sawmill in DeRidder, Louisiana (which was substantially completed in the second quarter of 2023) and initial costs associated with the Company's greenfield sawmill in Axis, Alabama. In the pulp and paper segment, capital expenditures were largely associated with maintenance-of-business capital.

Liquidity and Financial Requirements

Operating Loans - Consolidated

At June 30, 2023, on a consolidated basis, including CPPI and the Vida Group ("Vida"), the Company had cash and cash equivalents of $860.7 million, with $64.4 million drawn on its operating loans and facilities, and an additional $84.3 million reserved for several standby letters of credit. At the end of the quarter, the Company had available, undrawn operating loan facilities of $1,162.6 million, including an undrawn committed revolving credit facility.

Operating Loans – Canfor, excluding Vida and CPPI

On June 28, 2023, Canfor, excluding Vida and CPPI, extended the maturity date of its $198.6 million (US$150.0 million) committed revolving credit facility to June 28, 2024. On June 28, 2024, 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, 2029.

Interest is payable on Canfor's committed operating and revolving loan facilities, excluding Vida and CPPI, at floating rates based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar floating rate, plus a margin that varies with the Company's debt to total capitalization ratio. Canfor's committed operating loan facility is repayable on October 31, 2027.

As at June 30, 2023, Canfor, excluding Vida and CPPI, had available operating loan facilities totaling $1,043.6 million, with $71.3 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans, leaving $972.3 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 2.8% to 6.3%. Vida also has separate overdraft facilities with fixed interest rates ranging from 3.9% to 6.3%. Vida's operating loan facilities have certain financial covenants including minimum equity and interest coverage ratios.

At June 30, 2023, Vida had $9.4 million drawn on its $107.7 million operating loan facilities, leaving $98.3 million available and undrawn at the end of the quarter.

Operating Loans – CPPI

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

At June 30, 2023, CPPI had a $160.0 million unsecured operating loan facility, with $55.0 million drawn and $13.0 million reserved for several standby letters of credit, leaving $92.0 million available and undrawn on its operating facility at the end of the quarter.

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 floating rate, plus a margin. CPPI's operating loan facility is repayable on May 2, 2027, and has certain financial covenants, including a maximum debt to total capitalization ratio.

Term Debt

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

On May 2, 2023, CPPI secured a commitment to receive up to $80.0 million of non-revolving term debt to support CPPI's continued re-investment in its facilities, specifically Northwood's RB1. This new non-revolving term debt has a maturity date of May 2, 2027, with interest payable at floating interest rates consistent with its operating loan facility. As at June 30, 2023, this non-revolving term debt remains undrawn.

Net Cash and Liquidity

At June 30, 2023, on a consolidated basis, including CPPI and Vida, the Company had total net cash of $592.0 million, down $77.0 million from the end of the previous quarter. Available liquidity of $2,103.3 million, of which $80.0 million relates to CPPI's non-revolving term debt which is restricted for use on the continued re-investment in its facilities, specifically Northwood's RB1, decreased by $9.4 million from the previous quarter.

The Company's consolidated net cash to total capitalization at the end the second quarter of 2023 was 15.6%. For Canfor, excluding CPPI, net debt to capitalization at the end of the second quarter of 2023 was 17.8%.

Debt Covenants

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

Normal Course Issuer Bid

During the second quarter of 2023, the Company purchased 539,900 common shares for $11.3 million (an average price of $20.93 per common share), of which $10.9 million was paid during the quarter. An additional $0.6 million was paid during the period in relation to shares purchased in the prior quarter.

Non-Controlling Interests

During the second quarter of 2023, Vida paid a dividend of $199.5 million (SEK 1,600.0 million) to its shareholders, which included distributions to non-controlling interests of $59.9 million.

Shares Outstanding

As at June 30, 2023, and July 27, 2023, there were 120,111,879 common shares of the Company outstanding, and Canfor's ownership interest in CPPI and Vida was at 54.8% and 70.0%, respectively.

OUTLOOK

Lumber

Looking ahead, the outlook for North America remains uncertain as positive longer-term lumber market fundamentals continue to be challenged by short-term affordability constraints. High interest rates are projected to endure through the third quarter of 2023, keeping existing home inventories at low levels of supply. It is anticipated that new home builders will continue to offer concessions, however, in an attempt to potentially relieve some affordability pressures for prospective homeowners. As a result, residential construction activity is projected to experience a slight improvement through the third quarter of 2023 as the underlying demand for housing in North America remains. In the do-it-yourself space, demand is forecast to slow towards the end of the third quarter, largely attributable to seasonal factors.

In terms of North American lumber supply, operational constraints in the current quarter, particularly in Western Canada led by market-related curtailments and wildfires, are anticipated to continue well into the third quarter of 2023. Currently, Canada is about halfway through the traditional wildfire season and already new records have been set in both Alberta and BC for total hectares burned. These extreme conditions are disrupting the Company's operations as well as access to fibre, harvesting and hauling activities. Management is and will continue to monitor the wildfire situation while working closely with local communities and Provincial wildfire associations. The Company will adjust operating rates, as needed, through the balance of 2023, as the full extent of the impact on its operations, including sustainable timber supplies and future harvesting plans will be assessed over the coming months.

In the US South, the ramp-up in production at the Company's greenfield facility in DeRidder, Louisiana, which commenced in the current quarter, is progressing better than anticipated, and is forecast to continue to improve through the balance of 2023.

Offshore lumber demand in Asia is forecast to experience a modest recovery in the second half of the year, particularly in China and Japan, following the gradual drawdown of high inventory levels, and supported by economic stimulus measures introduced by the Chinese Government.

European lumber pricing is anticipated to come under modest pressure in the third quarter of 2023 largely driven by reduced activity in the residential construction sector coupled with ongoing log supply constraints, offset to a degree by a seasonal uptick in the repair and remodeling segment.

Planning and technical work on the Houston, BC, facility redevelopment has been completed. Work to assess the availability of an adequate supply of economic fibre to support an investment of this size and scope is continuing. This work includes discussions with the Government of BC to seek assurances on the long-term fibre supply outlook for the region. Management hopes to conclude these discussions within the coming weeks.

Pulp and Paper

Looking forward, global softwood kraft pulp markets are anticipated to remain challenging through the third quarter of 2023, as record high global pulp producer inventory levels are projected to continue to be met with weak global pulp demand, particularly for paper and writing grades. In addition, the traditionally slower summer months are anticipated to further soften global pulp demand, particularly in the short-term. CPPI will continue to monitor the challenging market conditions and will adjust operating rates, if appropriate, through the balance of 2023.

The labour dispute at the Ports of Vancouver and Prince Rupert that commenced on July 1, 2023, put pressure on a constrained logistics network in BC. As a direct result, with pulp mill inventories at capacity, CPPI curtailed its

Northwood pulp mill in July for approximately one week, with an estimated 10,000 tonnes of reduced NBSK pulp production.

Results in the third quarter of 2023 are also forecast to reflect a scheduled maintenance outage at Northwood in September, with a projected 25,000 tonnes of reduced NBSK pulp production, as well as higher associated maintenance costs and lower projected shipment volume. As part of this outage, CPPI will complete an inspection of its assets at this facility, including the two recovery boilers, with the intention of formulating a re-investment plan for Northwood's RB1, as well as the facility as a whole, that is focused on optimizing this mill for the long-term.

Bleached kraft paper markets are anticipated to weaken through the third quarter of 2023, particularly in the North American markets, as tepid demand is combined with above-average paper inventory levels.

CRITICAL ACCOUNTING ESTIMATES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2023, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2022 annual statutory reports which are available on www.canfor.com or www.sedar.com.

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 1,446.0**	$ 1,385.4	$ 1,373.3	$ 1,666.4	$ 2,173.1	$ 2,213.9	$ 1,571.3	$ 1,676.6
Operating income (loss) before amortization, asset write-downs and impairments[22]	**$ 41.0**	$ (105.7)	$ (62.6)	$ 211.5	$ 630.3	$ 830.7	$ 321.7	$ 425.4
Operating income (loss)	**$ (66.7)**	$ (208.5)	$ (308.0)	$ 108.6	$ 531.6	$ 741.9	$ (66.8)	$ 331.0
Net income (loss)	**$ (48.6)**	$ (143.6)	$ (231.4)	$ 106.5	$ 415.5	$ 570.5	$ (35.5)	$ 256.8
Shareholder net income (loss)	**$ (43.9)**	$ (142.0)	$ (207.9)	$ 87.4	$ 373.8	$ 534.0	$ (23.1)	$ 210.0
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ (0.36)**	$ (1.17)	$ (1.70)	$ 0.71	$ 3.02	$ 4.29	$ (0.19)	$ 1.68
Book value[23]	**$ 32.63**	$ 33.76	$ 34.87	$ 36.14	$ 34.77	$ 31.96	$ 27.99	$ 28.23
Statistics								
Lumber shipments (MMfbm)[24]	**1,406**	1,340	1,239	1,311	1,528	1,407	1,320	1,316
Pulp shipments (000 mt)	**179**	152	170	199	205	176	216	241
Average exchange rate – US$/Cdn$	**$ 0.745**	$ 0.740	$ 0.736	$ 0.766	$ 0.783	$ 0.790	$ 0.794	$ 0.794
Average exchange rate – SEK/Cdn$	**7.833**	7.726	7.891	8.082	7.708	7.367	7.026	6.865
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 358**	$ 386	$ 410	$ 580	$ 866	$ 1,274	$ 711	$ 494
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 486**	$ 485	$ 451	$ 722	$ 769	$ 1,372	$ 862	$ 533
Average SYP (East) 2x6 #2 lumber price (US$)	**$ 385**	$ 420	$ 449	$ 459	$ 556	$ 1,102	$ 538	$ 407
Average NBSK pulp list price delivered to China (US$)	**$ 668**	$ 891	$ 920	$ 969	$ 1,008	$ 899	$ 723	$ 832

[22] Amortization includes amortization of certain capitalized major maintenance costs; includes asset write-down and impairment charges of $138.6 million in Q4 2022 and $293.5 million in Q4 2021.
[23] Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.
[24] Includes Canfor produced lumber, as well as lumber purchased for resale, remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

Other 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)	Q1 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Shareholder net income (loss), as reported	**$ (43.9)**	$ (142.0)	$ (207.9)	$ 87.4	$ 373.8	$ 534.0	$ (23.1)	$ 210.0
Foreign exchange (gain) loss on term debt	**$ (6.7)**	$ (0.4)	$ (1.7)	$ 10.6	$ 4.9	$ (3.0)	$ 0.2	$ 2.6
(Gain) loss on derivative financial instruments	**$ 6.3**	$ (2.5)	$ (2.0)	$ 0.5	$ 1.0	$ (2.0)	$ 3.0	$ (0.8)
Asset write-downs and impairments	**$ -**	$ -	$ 84.8	$ -	$ -	$ -	$ 182.9	$ -
Net impact of above items	**$ (0.4)**	$ (2.9)	$ 81.1	$ 11.1	$ 5.9	$ (5.0)	$ 186.1	$ 1.8
Adjusted shareholder net income (loss)[25]	**$ (44.3)**	$ (144.9)	$ (126.8)	$ 98.5	$ 379.7	$ 529.0	$ 163.0	$ 211.8
Shareholder net income (loss) per share (EPS), as reported	**$ (0.36)**	$ (1.17)	$ (1.70)	$ 0.71	$ 3.02	$ 4.29	$ (0.19)	$ 1.68
Net impact of above items per share	**$ -**	$ (0.03)	$ 0.66	$ 0.09	$ 0.05	$ (0.04)	$ 1.50	$ 0.02
Adjusted net income (loss) per share[25]	**$ (0.36)**	$ (1.20)	$ (1.04)	$ 0.80	$ 3.07	$ 4.25	$ 1.31	$ 1.70

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

NON-IFRS FINANCIAL MEASURES

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

(millions of Canadian dollars)	**Q2 2023**	Q1 2023	**YTD 2023**	Q2 2022	YTD 2022
Reported operating income (loss)	**$ (66.7)**	$ (208.5)	**$ (275.2)**	$ 531.6	$ 1,273.5
Inventory write-down (recovery), net	**$ (57.4)**	$ 62.1	**$ 4.7**	$ 0.5	$ (0.6)
Adjusted operating income (loss)	**$ (124.1)**	$ (146.4)	**$ (270.5)**	$ 532.1	$ 1,272.9
Amortization	**$ 107.7**	$ 102.8	**$ 210.5**	$ 98.7	$ 187.5
Adjusted operating income (loss) before amortization	**$ (16.4)**	$ (43.6)	**$ (60.0)**	$ 630.8	$ 1,460.4

(millions of Canadian dollars)	**Q2 2023**	Q1 2023	**YTD 2023**	Q2 2022	YTD 2022
Reported operating income (loss)	**$ (66.7)**	$ (208.5)	**$ (275.2)**	$ 531.6	$ 1,273.5
Realized (gain) loss on derivative financial instruments	**$ 3.2**	$ (1.2)	**$ 2.0**	$ 0.7	$ 3.9
Other income, net	**$ 6.7**	$ 4.7	**$ 11.4**	$ 14.6	$ 20.5
Less: non-controlling interests	**$ (3.6)**	$ 4.3	**$ 0.7**	$ (63.3)	$ (118.7)
Return	**$ (60.4)**	$ (200.7)	**$ (261.1)**	$ 483.6	$ 1,179.2
Average invested capital[26]	**$ 4,160.9**	$ 4,159.1	**$ 4,149.5**	$ 3,832.1	$ 3,645.0
Return on invested capital (ROIC)	**(1.5)%**	(4.8)%	**(6.3)%**	12.6%	32.4%

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

(millions of Canadian dollars, except ratios)	**As at June 30, 2023**	As at December 31, 2022	As at June 30, 2022
Term debt	**$ 204.3**	$ 258.9	$ 249.0
Operating loans	**$ 64.4**	$ 27.8	$ 16.8
Less: cash and cash equivalents	**$ 860.7**	$ 1,268.7	$ 1,533.7
Net cash	**$ (592.0)**	$ (982.0)	(1,267.9)
Total equity	**$ 4,394.1**	$ 4,762.8	$ 4,809.5
Total capitalization	**$ 3,802.1**	$ 3,780.8	$ 3,541.6
Net cash to total capitalization	**(15.6)%**	(26.0)%	(35.8)%

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at June 30, 2023**		As at December 31, 2022
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**860.7**	$	1,268.7
Trade receivables		**389.0**		336.0
Other receivables		**90.7**		87.3
Income taxes recoverable		**123.3**		54.2
Inventories (Note 3)		**992.4**		1,180.7
Prepaid expenses and other		**192.2**		138.0
Total current assets		**2,648.3**		3,064.9
Property, plant and equipment		**2,216.3**		2,219.1
Right-of-use assets		**110.7**		99.1
Timber licenses		**352.3**		357.8
Goodwill and other intangible assets		**511.5**		532.1
Long-term investments and other (Note 4)		**447.9**		466.2
Total assets	**$**	**6,287.0**	$	6,739.2
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**683.1**	$	678.7
Operating loans (Note 5(a))		**64.4**		27.8
Current portion of deferred reforestation obligations		**60.3**		60.4
Current portion of term debt (Note 5(b))		**44.3**		45.3
Current portion of lease obligations		**27.6**		26.2
Income taxes payable		**2.0**		45.2
Total current liabilities		**881.7**		883.6
Term debt (Note 5(b))		**160.0**		213.6
Retirement benefit obligations (Note 6)		**137.7**		158.3
Lease obligations		**89.6**		79.5
Deferred reforestation obligations		**52.1**		43.8
Other long-term liabilities		**39.2**		32.0
Put liability (Note 7)		**171.9**		172.7
Deferred income taxes, net		**360.7**		392.9
Total liabilities	**$**	**1,892.9**	$	1,976.4
EQUITY				
Share capital	**$**	**947.6**	$	955.1
Contributed surplus and other equity		**(166.8)**		(157.7)
Retained earnings		**3,154.2**		3,341.5
Accumulated other comprehensive income (loss)		**(15.8)**		82.6
Total equity attributable to equity shareholders of the Company		**3,919.2**		4,221.5
Non-controlling interests		**474.9**		541.3
Total equity	**$**	**4,394.1**	$	4,762.8
Total liabilities and equity	**$**	**6,287.0**	$	6,739.2

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, The Hon. J.R. Baird

Canfor Corporation
Condensed Consolidated Statements of Income (Loss)

(millions of Canadian dollars, except per share data, unaudited)	3 months ended June 30, **2023**	3 months ended June 30, 2022	6 months ended June 30, **2023**	6 months ended June 30, 2022
Sales	**$ 1,446.0**	$ 2,173.1	**$ 2,831.4**	$ 4,387.0
Costs and expenses				
Manufacturing and product costs	**1,138.5**	1,244.2	**2,376.3**	2,357.6
Freight and other distribution costs	**192.2**	223.0	**358.2**	413.5
Countervailing and anti-dumping duty expense, net (Note 12)	**33.6**	33.2	**62.8**	71.1
Amortization	**107.7**	98.7	**210.5**	187.5
Selling and administration costs	**40.1**	40.7	**84.5**	82.1
Restructuring costs (Note 13)	**0.6**	1.7	**14.3**	1.7
	1,512.7	1,641.5	**3,106.6**	3,113.5
Operating income (loss)	**(66.7)**	531.6	**(275.2)**	1,273.5
Finance income (expense), net	**(0.9)**	(3.3)	**2.1**	(7.6)
Foreign exchange gain (loss) on term debt	**7.7**	(5.6)	**8.2**	(2.1)
Foreign exchange gain (loss) on duties recoverable, net	**(7.2)**	7.6	**(7.2)**	4.6
Gain (loss) on derivative financial instruments (Note 7)	**(10.6)**	(2.6)	**(7.1)**	0.2
Other income, net	**6.7**	14.6	**11.4**	20.5
Net income (loss) before income taxes	**(71.0)**	542.3	**(267.8)**	1,289.1
Income tax recovery (expense) (Note 8)	**22.4**	(126.8)	**75.6**	(303.1)
Net income (loss)	**$ (48.6)**	$ 415.5	**$ (192.2)**	$ 986.0
Net income (loss) attributable to:				
Equity shareholders of the Company	**$ (43.9)**	$ 373.8	**$ (185.9)**	$ 907.8
Non-controlling interests	**(4.7)**	41.7	**(6.3)**	78.2
Net income (loss)	**$ (48.6)**	$ 415.5	**$ (192.2)**	$ 986.0
Net income (loss) per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 9)	**$ (0.36)**	$ 3.02	**$ (1.54)**	$ 7.32

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 June 30, **2023**	3 months ended June 30, 2022	6 months ended June 30, **2023**	6 months ended June 30, 2022
Net income (loss)	**$ (48.6)**	$ 415.5	**$ (192.2)**	$ 986.0
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to net income (loss):				
Defined benefit plan actuarial gains, net (Note 6)	**5.1**	18.6	**18.2**	52.6
Income tax expense on defined benefit plan actuarial gains, net (Note 8)	**(1.3)**	(5.0)	**(4.8)**	(14.2)
	3.8	13.6	**13.4**	38.4
Items that may be reclassified subsequently to net income (loss):				
Foreign exchange translation of foreign operations, net of tax	**(102.6)**	(22.5)	**(98.4)**	(88.4)
Other comprehensive loss, net of tax	**(98.8)**	(8.9)	**(85.0)**	(50.0)
Total comprehensive income (loss)	**$ (147.4)**	$ 406.6	**$ (277.2)**	$ 936.0
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	**$ (143.6)**	$ 361.2	**$ (272.7)**	$ 850.9
Non-controlling interests	**(3.8)**	45.4	**(4.5)**	85.1
Total comprehensive income (loss)	**$ (147.4)**	$ 406.6	**$ (277.2)**	$ 936.0

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 June 30, **2023**	3 months ended June 30, 2022	6 months ended June 30, **2023**	6 months ended June 30, 2022
Share capital				
Balance at beginning of period	**$ 951.9**	$ 980.1	**$ 955.1**	$ 982.2
Share purchases (Note 9)	**(4.3)**	(13.5)	**(7.5)**	(15.6)
Balance at end of period	**$ 947.6**	$ 966.6	**$ 947.6**	$ 966.6
Contributed surplus and other equity				
Balance at beginning of period	**$ (161.9)**	$ (127.0)	**$ (157.7)**	$ (130.9)
Put liability (Note 7)	**(4.9)**	(29.8)	**(9.1)**	(25.9)
Balance at end of period	**$ (166.8)**	$ (156.8)	**$ (166.8)**	$ (156.8)
Retained earnings				
Balance at beginning of period	**$ 3,202.2**	$ 3,137.2	**$ 3,341.5**	$ 2,586.8
Net income (loss) attributable to equity shareholders of the Company	**(43.9)**	373.8	**(185.9)**	907.8
Defined benefit plan actuarial gains, net of tax	**2.9**	9.9	**11.6**	31.5
Share purchases (Note 9)	**(7.0)**	(27.8)	**(13.0)**	(33.0)
Balance at end of period	**$ 3,154.2**	$ 3,493.1	**$ 3,154.2**	$ 3,493.1
Accumulated other comprehensive income (loss)				
Balance at beginning of period	**$ 86.8**	$ (20.0)	**$ 82.6**	$ 45.9
Foreign exchange translation of foreign operations, net of tax	**(102.6)**	(22.5)	**(98.4)**	(88.4)
Balance at end of period	**$ (15.8)**	$ (42.5)	**$ (15.8)**	$ (42.5)
Total equity attributable to equity shareholders of the Company	**$ 3,919.2**	$ 4,260.4	**$ 3,919.2**	$ 4,260.4
Non-controlling interests				
Balance at beginning of period	**$ 540.6**	$ 564.6	**$ 541.3**	$ 525.1
Net income (loss) attributable to non-controlling interests	**(4.7)**	41.7	**(6.3)**	78.2
Defined benefit plan actuarial gains attributable to non-controlling interests, net of tax	**0.9**	3.7	**1.8**	6.9
Distributions to non-controlling interests (Note 14)	**(61.9)**	(60.9)	**(61.9)**	(61.1)
Balance at end of period	**$ 474.9**	$ 549.1	**$ 474.9**	$ 549.1
Total equity	**$ 4,394.1**	$ 4,809.5	**$ 4,394.1**	$ 4,809.5

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 June 30, **2023**	3 months ended June 30, 2022	6 months ended June 30, **2023**	6 months ended June 30, 2022
Cash generated from (used in):				
Operating activities				
Net income (loss)	**$ (48.6)**	$ 415.5	**$ (192.2)**	$ 986.0
Items not affecting cash:				
Amortization	**107.7**	98.7	**210.5**	187.5
Income tax (recovery) expense	**(22.4)**	126.8	**(75.6)**	303.1
Change in long-term portion of deferred reforestation obligations, net	**(12.7)**	(15.3)	**7.4**	2.5
Foreign exchange (gain) loss on term debt	**(7.7)**	5.6	**(8.2)**	2.1
Foreign exchange (gain) loss on duty deposits recoverable, net	**7.2**	(7.6)	**7.2**	(4.6)
Duties paid (greater) less than accruals (Note 12)	**22.6**	(45.3)	**42.0**	(96.0)
Changes in mark-to-market value of derivative financial instruments	**7.4**	1.9	**5.1**	(4.2)
Employee future benefits expense	**3.6**	2.3	**8.9**	4.3
Restructuring costs (Note 13)	**0.6**	1.7	**14.3**	1.7
Finance (income) expense, net	**0.9**	3.3	**(2.1)**	7.6
Other, net	**6.8**	(3.0)	**5.1**	(1.9)
Defined benefit plan contributions, net	**(15.4)**	(3.0)	**(18.8)**	(6.8)
Income taxes paid, net	**(17.9)**	(113.0)	**(75.1)**	(321.0)
	32.1	468.6	**(71.5)**	1,060.3
Net change in non-cash working capital (Note 10)	**151.7**	208.8	**29.0**	(78.9)
	183.8	677.4	**(42.5)**	981.4
Financing activities				
Operating loan drawings (repayments), net (Note 5(a))	**43.4**	(3.6)	**37.4**	0.2
Repayments and conversion of term debt, net (Note 5(b))	**(50.1)**	(0.1)	**(50.0)**	(0.2)
Payments of lease obligations	**(7.8)**	(5.5)	**(15.5)**	(12.4)
Finance expenses paid	**(10.8)**	(6.4)	**(16.4)**	(9.8)
Share purchases (Note 9)	**(11.5)**	(40.5)	**(22.6)**	(46.2)
Cash distributions paid to non-controlling interests (Note 14)	**(61.9)**	(60.9)	**(61.9)**	(61.1)
	(98.7)	(117.0)	**(129.0)**	(129.5)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(142.4)**	(113.1)	**(222.0)**	(208.7)
Acquisition of Millar Western	**-**	(15.9)	**-**	(434.0)
Interest income received	**6.7**	1.3	**16.0**	1.7
Other, net	**1.8**	1.8	**8.0**	0.8
	(133.9)	(125.9)	**(198.0)**	(640.2)
Foreign exchange loss on cash and cash equivalents	**(40.3)**	(8.2)	**(38.5)**	(32.8)
Increase (decrease) in cash and cash equivalents*	**(89.1)**	426.3	**(408.0)**	178.9
Cash and cash equivalents at beginning of period*	**949.8**	1,107.4	**1,268.7**	1,354.8
Cash and cash equivalents at end of period*	**$ 860.7**	$ 1,533.7	**$ 860.7**	$ 1,533.7

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

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

Canfor Corporation
Notes to the Condensed Consolidated Interim Financial Statements
Three and six months ended June 30, 2023 and 2022

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 June 30, 2023.

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

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

2. 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 June 30, 2023**	As at December 31, 2022
Logs	**$ 202.7**	$ 305.3
Finished products	**611.4**	693.5
Residual fibre	**20.9**	27.0
Materials and supplies	**157.4**	154.9
	$ 992.4	$ 1,180.7

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended June 30, 2023, a $64.3 million net reversal of a previously recognized inventory write-down was recorded for the lumber segment (six months ended June 30, 2023 – $5.8 million net write-down recovery). For the three and six months ended June 30, 2022, no inventory valuation adjustment was recognized for the lumber segment. At June 30, 2023, an inventory provision of $89.9 million has been recognized for logs and lumber (December 31, 2022 – provision of $95.7 million).

For the three months ended June 30, 2023, a $6.9 million net inventory write-down expense was recognized for the pulp and paper segment (six months ended June 30, 2023 – $10.5 million net write-down expense). For the three months ended June 30, 2022, a $0.5 million inventory write-down expense was recognized for the pulp and paper segment (six months ended June 30, 2022 – $0.6 million net write-down recovery). At June 30, 2023, a provision for finished pulp, wood chips and logs of $12.9 million has been recognized (December 31, 2022 – provision of $2.4 million related to logs).

4. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)		As at June 30, 2023		As at December 31, 2022
Duty deposits recoverable, net (Note 12)	**$**	**332.2**	$	372.9
Other deposits, loans, advances and long-term assets		**61.3**		49.3
Other investments		**30.9**		33.4
Retirement benefit surplus		**13.2**		9.6
Deferred income taxes, net		**10.3**		1.0
	$	**447.9**	$	466.2

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 June 30, 2023, including interest receivable of $48.8 million (December 31, 2022 – $40.8 million) (Note 12).

5. Operating Loans and Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)		As at June 30, 2023		As at December 31, 2022
Canfor (excluding Vida and CPPI)				
Available operating loans:				
Operating loan facility	**$**	**775.0**	$	775.0
Revolving credit facility (US$150.0 million)		**198.6**		203.2
Facilities for letters of credit		**70.0**		70.0
Total operating loan facilities		**1,043.6**		1,048.2
Letters of credit covered under operating loan facility		**(2.7)**		(2.7)
Letters of credit covered under facilities for letters of credit		**(68.6)**		(66.3)
Total available operating loan facilities - Canfor	**$**	**972.3**	$	979.2
Vida				
Available operating loans:				
Operating loan facilities	**$**	**62.9**	$	66.4
Overdraft facilities		**44.8**		43.8
Total operating loan facilities		**107.7**		110.2
Operating loan facilities drawn		**(9.4)**		(12.8)
Total available operating loan facilities - Vida	**$**	**98.3**	$	97.4
CPPI				
Available operating loans:				
Operating loan facility	**$**	**160.0**	$	110.0
Letters of credit		**(13.0)**		(12.9)
Operating loan facility drawn		**(55.0)**		(15.0)
Total available operating loan facility - CPPI	**$**	**92.0**	$	82.1
Consolidated:				
Total operating loan facilities	**$**	**1,311.3**	$	1,268.4
Total operating loan facilities drawn	**$**	**(64.4)**	$	(27.8)
Total letters of credit	**$**	**(84.3)**	$	(81.9)
Total available operating loan facilities	**$**	**1,162.6**	$	1,158.7

On June 28, 2023, Canfor (excluding Vida and CPPI) extended its $198.6 million (US$150.0 million) committed revolving credit facility to June 28, 2024. On June 28, 2024, 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, 2029.

On May 2, 2023, CPPI converted its $50.0 million non-revolving term debt (Note 5(b)) into its existing $110.0 million committed operating loan facility, thereby increasing the principal amount of its existing committed operating facility to $160.0 million.

Interest is payable on Canfor and CPPI's committed operating and revolving loan facilities at floating rates based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar floating rate, plus a margin that varies with Canfor and CPPI's debt to total capitalization ratios. Canfor's committed operating loan facility is repayable on October 31, 2027 and CPPI's operating loan facility is repayable on May 2, 2027.

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 2.8% to 6.3%. Vida also has separate overdraft facilities with fixed interest rates ranging from 3.9% to 6.3%.

Canfor and CPPI's operating loan facilities have certain financial covenants, including maximum debt to total capitalization ratios. Vida is also subject to certain financial covenants, including minimum equity and interest coverage ratios. As at June 30, 2023, 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 June 30, 2023**		As at December 31, 2022
Canfor (excluding Vida and CPPI)				
US$50.0 million, floating interest, repayable on June 28, 2031	**$**	**66.2**	$	67.7
US$100.0 million, fixed interest of 4.4%, repayable in three equal tranches on October 2, 2023, 2024 and 2025		**132.4**		135.4
Other		**5.1**		5.2
Vida				
SEK 1.2 million, floating interest, repaid on April 30, 2023		**-**		0.1
SEK 0.7 million, floating interest, repayable November 30, 2024		**0.1**		0.1
AUD$0.6 million, floating interest, repayable between April 23, 2024 and May 31, 2028		**0.5**		0.4
CPPI				
CAD$50.0 million, floating interest, converted on May 2, 2023 (Note 5(a))		**-**		50.0
Up to CAD$80.0 million, floating interest, repayable on May 2, 2027		**-**		-
Term debt at end of period	**$**	**204.3**	$	258.9
Less: Current portion		**(44.3)**		(45.3)
Long-term portion	**$**	**160.0**	$	213.6

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

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 June 30, 2023, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their term debt.

Fair value of total term debt

At June 30, 2023, the fair value of the Company's term debt is $190.4 million (December 31, 2022 – $241.7 million), determined based on prevailing market rates for term debt with similar characteristics and risk profile.

6. Employee Future Benefits

For the three months ended June 30, 2023, actuarial gains of $5.1 million (before tax) were recognized in other comprehensive income (loss) in relation to the Company's net defined benefit obligations (comprised of defined benefit pension plans as well as other benefit plans), principally reflecting a higher discount rate used to value the net defined benefit obligations and a higher than anticipated return on plan assets. For the six months ended June 30, 2023, actuarial gains of $18.2 million (before tax) were recognized in other comprehensive income (loss).

For the three months ended June 30, 2022, actuarial gains of $18.6 million (before tax) were recognized in other comprehensive income (loss), largely reflecting a higher discount rate used to value the net defined benefit obligations, 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 defined benefit plans. For the six months ended June 30, 2022, actuarial gains of $52.6 million (before tax) were recognized in other comprehensive income (loss).

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

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

7. Financial Instruments

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

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

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

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

The following table summarizes Canfor's financial instruments measured at fair value at June 30, 2023 and December 31, 2022, 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 June 30, 2023**	As at December 31, 2022
Financial assets measured at fair value			
Investments	Level 1	**$ 29.1**	$ 31.7
Derivative financial instruments	Level 2	**0.9**	2.0
Duty deposits recoverable, net (Note 4)	Level 3	**332.2**	372.9
		$ 362.2	$ 406.6
Financial liabilities measured at fair value			
Derivative financial instruments	Level 2	**$ 4.0**	$ -
Put liability	Level 3	**171.9**	172.7
		$ 175.9	$ 172.7

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

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2023**	2022	**2023**	2022
Lumber futures	**$ (2.9)**	$ 2.3	**$ 0.7**	$ 4.6
Foreign exchange forward contracts	**(7.7)**	(4.9)	**(7.8)**	(4.4)
Gain (loss) on derivative financial instruments	**$ (10.6)**	$ (2.6)	**$ (7.1)**	$ 0.2

During the three and six months ended June 30, 2023, losses of $4.9 million and $9.1 million, respectively, were recognized in 'Other Equity' on the Company's condensed consolidated balance sheet following remeasurement of the put liability, primarily reflecting the passage of time (three and six months ended June 30, 2022 – losses of $29.8 million and $25.9 million, respectively). As a result of this remeasurement, combined with net foreign exchange gains of $10.7 million and $9.9 million for the three and six months ended June 30, 2023, respectively (three and six months ended June 30, 2022 – gains of $8.5 million and $15.8 million, respectively), the balance of the put liability was $171.9 million at June 30, 2023 (December 31, 2022 – $172.7 million).

8. Income Taxes

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

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2023**	2022	**2023**	2022
Current	**$ 13.7**	$ (85.7)	**$ 37.4**	$ (262.2)
Deferred	**8.7**	(41.1)	**38.2**	(40.9)
Income tax recovery (expense)	**$ 22.4**	$ (126.8)	**$ 75.6**	$ (303.1)

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

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2023**	2022	**2023**	2022
Income tax recovery (expense) at statutory rate of 27.0% (2022 – 27.0%)	**$ 19.2**	$ (146.4)	**$ 72.3**	$ (348.1)
Add (deduct):				
Non-taxable income (loss) related to non-controlling interests	**(0.1)**	0.5	**(0.3)**	0.5
Entities with different income tax rates and other tax adjustments	**1.8**	20.0	**3.1**	44.9
Permanent difference from capital gains and losses and other non-deductible items	**1.5**	(0.9)	**0.5**	(0.4)
Income tax recovery (expense)	**$ 22.4**	$ (126.8)	**$ 75.6**	$ (303.1)

In addition to the amounts recorded to net income (loss), a tax expense of $1.3 million was recorded to other comprehensive income (loss) in relation to actuarial gains, net, on the defined benefit plans for the three months ended June 30, 2023 (three months ended June 30, 2022 – $5.0 million). For the six months ended June 30, 2023, a tax expense of $4.8 million was recorded to other comprehensive income (loss) in relation to actuarial gains, net, on the defined benefit plans (six months ended June 30, 2022 – $14.2 million).

9. Earnings (Loss) Per Common Share

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

	3 months ended June 30,		6 months ended June 30,	
	2023	2022	**2023**	2022
Weighted average number of common shares	**120,485,587**	123,708,253	**120,735,840**	124,092,202

During the three months ended June 30, 2023, the Company purchased 539,900 common shares for $11.3 million (an average of $20.93 per common share), of which $10.9 million was paid during the quarter. An additional $0.6 million was paid during the three months ended June 30, 2023, in relation to shares purchased in the prior quarter. During the six months ended June 30, 2023, the Company purchased 947,700 common shares for $20.5 million (an average of $21.63 per common share), of which $20.1 million was paid during the period. An additional $2.5 million was paid during the six months ended June 30, 2023, in relation to shares purchased in prior periods.

As at June 30, 2023 and July 27, 2023, based on the trade date, there were 120,111,879 common shares of the Company outstanding and Canfor's ownership interest in CPPI and Vida was 54.8% and 70.0%, respectively.

10. Net Change in Non-Cash Working Capital

	3 months ended June 30,		6 months ended June 30,	
(millions of Canadian dollars, unaudited)	**2023**	2022	**2023**	2022
Trade and other receivables	**$ 17.6**	$ 69.9	**$ (81.6)**	$ (100.6)
Inventories	**240.7**	228.2	**164.8**	28.6
Prepaid expenses and other	**(25.4)**	(10.9)	**(64.3)**	(12.8)
Accounts payable and accrued liabilities and current portion of deferred reforestation obligations	**(81.2)**	(78.4)	**10.1**	5.9
Net change in non-cash working capital	**$ 151.7**	$ 208.8	**$ 29.0**	$ (78.9)

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 June 30, 2023										
Sales from contracts with customers	**$**	**1,196.5**	**$**	**249.5**	**$**	**-**	**$**	**-**	**$**	**1,446.0**
Sales to other segments		**38.7**		**-**		**-**		**(38.7)**		**-**
Operating loss		**(15.5)**		**(37.9)**		**(13.3)**		**-**		**(66.7)**
Amortization		**84.5**		**22.6**		**0.6**		**-**		**107.7**
Capital expenditures[1]		**127.8**		**10.3**		**4.3**		**-**		**142.4**
3 months ended June 30, 2022										
Sales from contracts with customers	$	1,884.3	$	288.8	$	-	$	-	$	2,173.1
Sales to other segments		35.1		0.1		-		(35.2)		-
Operating income (loss)		552.1		(8.1)		(12.4)		-		531.6
Amortization		74.5		23.8		0.4		-		98.7
Capital expenditures[1]		74.6		37.7		0.8		-		113.1
6 months ended June 30, 2023										
Sales from contracts with customers	**$**	**2,338.6**	**$**	**492.8**	**$**	**-**	**$**	**-**	**$**	**2,831.4**
Sales to other segments		**83.1**		**-**		**-**		**(83.1)**		**-**
Operating loss		**(185.2)**		**(63.1)**		**(26.9)**		**-**		**(275.2)**
Amortization		**162.0**		**47.2**		**1.3**		**-**		**210.5**
Capital expenditures[1,2]		**191.7**		**22.3**		**8.0**		**-**		**222.0**
Total assets		**4,192.1**		**660.7**		**1,434.2**		**-**		**6,287.0**
6 months ended June 30, 2022										
Sales from contracts with customers	$	3,878.0	$	509.0	$	-	$	-	$	4,387.0
Sales to other segments		72.5		0.2		-		(72.7)		-
Operating income (loss)		1,335.1		(34.1)		(27.5)		-		1,273.5
Amortization		142.8		43.9		0.8		-		187.5
Capital expenditures[1]		150.7		56.1		1.9		-		208.7
Total assets		4,211.4		830.0		1,922.6		-		6,964.0

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

Geographic information

Canfor operates manufacturing facilities in Canada, the US and Europe. Canfor's products are marketed worldwide, with sales made to customers in a number of different countries. In presenting information on the basis of geographical location, sales are based on the geographical location of customers.

(millions of Canadian dollars, unaudited)	3 months ended June 30,						6 months ended June 30,					
			2023			2022			**2023**			2022
Sales by location of customer												
Canada	**9%**	**$**	**125.3**	11%	$	230.4	**10%**	**$**	**295.9**	10%	$	450.7
United States	**52%**		**756.7**	54%		1,165.7	**51%**		**1,438.2**	57%		2,506.7
Europe	**20%**		**286.4**	18%		395.8	**20%**		**575.3**	17%		748.9
Asia	**17%**		**241.0**	15%		333.6	**16%**		**449.6**	14%		590.6
Other	**2%**		**36.6**	2%		47.6	**3%**		**72.4**	2%		90.1
	100%	**$**	**1,446.0**	100%	$	2,173.1	**100%**	**$**	**2,831.4**	100%	$	4,387.0

12. Countervailing and Anti-Dumping Duties

In 2016, a petition was filed by the US Lumber Coalition to the US Department of Commerce ("DOC") and the US International Trade Commission ("ITC") alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers. Canfor was selected by the DOC as a "mandatory respondent" to the countervailing and anti-dumping investigations and is subject to company specific CVD and ADD rates. As a result of the DOC's investigation, CVD and ADD were imposed on the Company's Canadian lumber exports to the United States beginning in 2017. As at June 30, 2023, Canfor has paid cumulative cash deposits of $908.7 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, 2023, the Company moved into the sixth period of review ("POR6"), which is based on sales and cost data in 2023. 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 0.95% for the three and six months ended June 30, 2023, while ADD was expensed at an estimated rate of 20.00%. Despite cash deposits being made in 2023 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 2023, the DOC announced the preliminary results for the fourth period of review ("POR4"), which is based on sales and cost data in 2021. The Company's preliminary CVD and ADD rate for 2021 was determined to be 2.04% and 5.25%, respectively. Upon finalization of these rates (anticipated in the third quarter of 2023), a recovery, estimated at $10.9 million (US$8.8 million), will be recognized in the Company's condensed consolidated interim financial statements to reflect the difference between the combined accrual rate of 9.63% between January and November 2021 and 9.42% for December 2021, and the DOC rate for POR4 (currently estimated to be 7.29% based on the preliminary determination).

In addition, upon finalization of these rates, the Company's current combined cash deposit rate of 5.87% will be reset to the final rates as determined in POR4 (7.29% based on the preliminary determination). 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 fifth period of review ("POR5") (anticipated in 2024). Despite the reduced preliminary rates for POR4, 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 $332.2 million is included on the Company's condensed consolidated interim balance sheet (Note 4) reflecting differences between the cash deposit rates and the Company's combined accrual rates for each period of review, including interest. For the three months and six months ended June 30, 2023, the Company recorded a duty expense of $33.6 million and $62.8 million, respectively (three and six months ended June 30, 2022 – net duty expense of $33.2 million and $71.1 million, respectively), comprised of the following:

(millions of Canadian dollars, unaudited)		3 months ended June 30, **2023**		6 months ended June 30, **2023**
Cash deposits paid	**$**	**11.0**	**$**	**20.8**
Duty expense attributable to POR6 – combined CVD and ADD[3]		**22.6**		**42.0**
Duty expense	**$**	**33.6**	**$**	**62.8**

[3]Reflects Canfor's combined accrual rate of 20.95% compared to the DOC's deposit rate of 5.87% for POR6.

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

13. Restructuring Costs

In January 2023, the Company announced the decision to permanently close the Chetwynd sawmill and pellet plant and temporarily closed its Houston sawmill for an extended period to facilitate a potential major redevelopment on the site. Also in January 2023, CPPI announced the decision to permanently close the pulp line at its Prince George Pulp and Paper mill. In connection with these closures, the Company has recognized restructuring costs of $0.6 million and $14.3 million, respectively, during the three and six months ended June 30, 2023.

14. Non-Controlling Interests

During the three and six months ended June 30, 2023, Vida paid a dividend of $199.5 million (SEK 1,600.0 million) to its shareholders, which included distributions to non-controlling interests of $59.9 million (three and six months ended June 30, 2022 – dividend of $201.1 million, which included distributions to non-controlling interests of $60.3 million).