2023

QUARTER ONE

INTERIM REPORT

FOR THE THREE MONTHS ENDED MARCH 31, 2023

CANFOR CORPORATION

To Our Shareholders

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

Overview

- Q1 2023 adjusted operating loss of $146 million; adjusted shareholder net loss of $145 million, or $1.20 per share
- Strong earnings from the Company's European operations and more modest earnings from its US South operations outweighed by continued pricing pressure on its Western Canadian operations
- Increased lumber production & shipments notwithstanding North American market-related challenges; uplift in pulp production despite ongoing fibre constraints

Financial Results

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

(millions of Canadian dollars, except per share amounts)	**Q1 2023**	Q4 2022	Q1 2022
Sales	**$ 1,385.4**	$ 1,373.3	$ 2,213.9
Reported operating income (loss) before amortization, asset write-downs and impairments	**$ (105.7)**	$ (62.6)	$ 830.7
Reported operating income (loss)	**$ (208.5)**	$ (308.0)	$ 741.9
Adjusted operating income (loss) before amortization, asset write-downs and impairments[1]	**$ (43.6)**	$ (57.0)	$ 829.6
Adjusted operating income (loss)[1]	**$ (146.4)**	$ (163.8)	$ 740.8
Net income (loss)[2]	**$ (142.0)**	$ (207.9)	$ 534.0
Net income (loss) per share, basic and diluted[2]	**$ (1.17)**	$ (1.70)	$ 4.29
Adjusted net income (loss)[1, 2]	**$ (144.9)**	$ (126.8)	$ 529.0
Adjusted net income (loss) per share, basic and diluted[1, 2]	**$ (1.20)**	$ (1.04)	$ 4.25

[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 $208.5 million for the first quarter of 2023, compared to an operating loss of $308.0 million in the fourth quarter of 2022. After adjusting for certain one-time items, including a $62.1 million inventory write-down in the current period, the Company's operating loss was $146.4 million for the first quarter of 2023, a $17.4 million improvement compared to an adjusted operating loss of $163.8 million for the fourth quarter of 2022. These results reflected improved pulp and paper segment results, offset in part by a decline in lumber segment earnings.

Lumber Segment Highlights and Outlook

For the lumber segment, adjusted results decreased $6.8 million quarter-over-quarter as strong earnings from the Company's European operations and more modest earnings from its US South operations, were more than offset by the challenging results from its Western Canadian operations. Overall, lumber segment results were primarily driven by a moderate decline in most North American benchmark lumber market prices, with the average North American Random Lengths Western Spruce/Pine/Fir ("SPF") 2x4 2&Btr price and the average Southern Yellow Pine ("SYP") East 2x6 #2 price both down 6% quarter-over-quarter. These factors were offset in part by slightly higher market pricing in Europe. In addition, the current quarter reflected moderately higher production and shipment volumes across all three lumber operating regions, primarily due to increased operating days in the US South and Europe, as well as reduced market-related temporary downtime in Western Canada (approximately 240 million board feet in the current period versus 250 million board feet in the prior quarter).

North American lumber market conditions remained under pressure through most of the first quarter of 2023. Residential construction activity was in line with the previous quarter but continued to be impacted by housing affordability constraints stemming from persistent inflationary cost pressures and high interest rates. These ongoing housing sector challenges more than offset slightly improved demand in the repair and remodeling sector and led to a decline in most North American US-dollar benchmark lumber prices in the current quarter.

Offshore lumber demand and pricing to Asian markets experienced continued weakness in the first quarter of 2023, most notably in Japan and Korea, due to the combined impact of high inflation and interest rates as well as elevated lumber inventory levels in those regions. In China, despite the introduction of government stimulus measures early in the current period aimed at reviving the domestic economy, lumber demand and pricing continued to be negatively impacted by high inventory levels in that region.

In Europe, and to a greater extent the United Kingdom, lumber demand and pricing experienced a modest improvement through the first quarter of 2023, reflecting a slight uptick in residential construction activity combined with restricted supply from Russia and Belarus. These factors more than outweighed the impact of ongoing weakness in the do-it-yourself sector during the period.

Looking ahead, global lumber market conditions are anticipated to face continued challenges through the second quarter of 2023 as general economic uncertainty accompanied by affordability pressures are projected to continue to weigh on demand. Notwithstanding these headwinds, in the longer term, underlying global lumber market fundamentals are forecast to be solid, principally reflecting strong demographic trends, consistent demand driven by an aging housing stock and low inventories of new homes. Demand in the repair and remodeling sector is anticipated to be strong through the second quarter of 2023, despite inflationary pressures, due to an aged housing stock and seasonal factors.

Offshore lumber demand in Asia is forecast to experience ongoing weakness in the second quarter of 2023 but improve through the latter half of the year as inventories in that region return to more balanced levels. In Europe, lumber demand is anticipated to be solid in the second quarter of 2023 as modest demand in the residential construction segment is combined with a seasonal uptick in the do-it-yourself sector.

Results in the second quarter of 2023 will also reflect the impact on production and shipments of the permanent closure of the Company's Chetwynd sawmill and pellet plant, as well as the temporary closure of its Houston sawmill following their wind down in April 2023.

In the US South, the construction of the Company's greenfield sawmill in DeRidder, Louisiana, is progressing well and its ramp-up in production is anticipated to commence in the second quarter of 2023 and continue through the balance of the year.

Pulp and Paper Segment Highlights and Outlook

For the pulp and paper segment, the adjusted operating loss was $21.6 million for the first quarter of 2023, a $20.4 million improvement compared to an adjusted operating loss of $42.0 million for the fourth quarter of 2022. These results for the most part reflected a 13% increase in pulp production and an associated decline in pulp unit manufacturing costs.

Following the strong global pulp market conditions experienced in 2022, market fundamentals came under modest pressure late in the first quarter of 2023. Relatively stable demand in the quarter was outweighed by an uptick in global pulp producer inventories, which, at the end of February 2023, were well above the balanced range, at 50 days of supply, an increase of seven days from the 43 days of supply at the end of December 2022 (Market conditions are generally considered balanced when inventories are in the 32-43 days of supply range). Consequently, the Northern Bleached Softwood Kraft ("NBSK") US-dollar list price on orders to China saw a modest decline, falling US$48 per tonne to US$865 per tonne in March 2023. For the current quarter overall, US-dollar NBSK pulp list prices to China averaged US$891 per tonne, down US$29 per tonne, or 3%, from the previous quarter.

Looking forward, global softwood kraft pulp markets are anticipated to continue to weaken through the second quarter of 2023, as relatively stable demand is projected to be overshadowed by above-average global pulp producer inventory levels.

Results in the second quarter of 2023 are also forecast to reflect the impact on pulp production and shipments of the closure of Canfor Pulp Products Inc.'s ("CPPI") pulp line at the Prince George Pulp and Paper mill. No major maintenance outages are planned for the second quarter of 2023.

The Honourable John R. Baird **Chairman**	**Don B. Kayne** **President and Chief Executive Officer**

Non-IFRS Financial Measures

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

(millions of Canadian dollars)	**Q1 2023**	Q4 2022	Q1 2022
Reported operating income (loss)	**$ (208.5)**	$ (308.0)	$ 741.9
Asset write-downs and impairments	**$ -**	$ 138.6	$ -
Inventory write-down (recovery), net	**$ 62.1**	$ 5.6	$ (1.1)
Adjusted operating income (loss)	**$ (146.4)**	$ (163.8)	$ 740.8
Amortization	**$ 102.8**	$ 106.8	$ 88.8
Adjusted operating income (loss) before amortization, asset write-downs and impairments	**$ (43.6)**	$ (57.0)	$ 829.6

After-tax impact, net of non-controlling interests (millions of Canadian dollars)	**Q1 2023**	Q4 2022	Q1 2022
Net income (loss)[3]	**$ (142.0)**	$ (207.9)	$ 534.0
Foreign exchange gain on term debt	**$ (0.4)**	$ (1.7)	$ (3.0)
Gain on derivative financial instruments	**$ (2.5)**	$ (2.0)	$ (2.0)
Asset write-downs and impairments	**$ -**	$ 84.8	$ -
Adjusted net income (loss)[3]	**$ (144.9)**	$ (126.8)	$ 529.0

[3] Attributable to equity shareholders of the Company.

Canfor Corporation
First 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 March 31, 2023, relative to the quarters ended December 31, 2022 and March 31, 2022, and the financial position of the Company at March 31, 2023. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended March 31, 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 first 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 May 2, 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.

FIRST QUARTER 2023 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except ratios)	Q1 2023	Q4 2022	Q1 2022
Operating income (loss) by segment:			
Lumber	**$ (169.7)**	$ (199.5)	$ 783.0
Pulp and Paper	**$ (25.2)**	$ (91.1)	$ (26.0)
Unallocated and Other	**$ (13.6)**	$ (17.4)	$ (15.1)
Total operating income (loss)	**$ (208.5)**	$ (308.0)	$ 741.9
Add: Amortization[1]	**$ 102.8**	$ 106.8	$ 88.8
Add: Asset write-downs and impairments	**$ -**	$ 138.6	$ -
Total operating income (loss) before amortization, asset write-downs and impairments	**$ (105.7)**	$ (62.6)	$ 830.7
Add (deduct):			
Working capital movements	**$ (122.7)**	$ (18.6)	$ (287.7)
Defined benefit plan contributions, net	**$ (3.4)**	$ (2.4)	$ (3.8)
Income taxes paid, net	**$ (57.2)**	$ (42.7)	$ (208.0)
Adjustment to accrued duties[2]	**$ 19.4**	$ 45.3	$ (50.7)
Other operating cash flows, net[3]	**$ 43.3**	$ 28.2	$ 23.5
Cash from operating activities	**$ (226.3)**	$ (52.8)	$ 304.0
Add (deduct):			
Capital additions, net	**$ (79.6)**	$ (277.8)	$ (95.6)
Finance expenses paid	**$ (5.6)**	$ (6.9)	$ (3.4)
Proceeds from (repayments of) term debt, net	**$ 0.1**	$ (0.1)	$ (0.1)
Share purchases	**$ (11.1)**	$ (30.3)	$ (5.7)
Acquisition of Millar Western	**$ -**	$ -	$ (418.1)
Other, net[3]	**$ 9.6**	$ 39.4	$ (31.4)
Change in cash / operating loans	**$ (312.9)**	$ (328.5)	$ (250.3)
ROIC – Consolidated period-to-date[4]	**(4.8)%**	(7.0)%	19.8%
Average exchange rate (US$ per C$1.00)[5]	**$ 0.740**	$ 0.736	$ 0.790
Average exchange rate (SEK per C$1.00)[5]	**7.726**	7.891	7.367

[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)		Q1 2023		Q4 2022		Q1 2022
Shareholder net income (loss), as reported	**$**	**(142.0)**	$	(207.9)	$	534.0
Foreign exchange gain on term debt	**$**	**(0.4)**	$	(1.7)	$	(3.0)
Gain on derivative financial instruments	**$**	**(2.5)**	$	(2.0)	$	(2.0)
Asset write-downs and impairments	**$**	**-**	$	84.8	$	-
Net impact of above items	**$**	**(2.9)**	$	81.1	$	(5.0)
Adjusted shareholder net income (loss)[6]	**$**	**(144.9)**	$	(126.8)	$	529.0
Shareholder net income (loss) per share (EPS), as reported	**$**	**(1.17)**	$	(1.70)	$	4.29
Net impact of above items per share	**$**	**(0.03)**	$	0.66	$	(0.04)
Adjusted shareholder net income (loss) per share[6]	**$**	**(1.20)**	$	(1.04)	$	4.25

[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 $208.5 million for the first quarter of 2023, compared to an operating loss of $308.0 million in the fourth quarter of 2022. After adjusting for certain one-time items, including a $62.1 million inventory write-down in the current period, the Company's operating loss was $146.4 million for the first quarter of 2023, a $17.4 million improvement compared to an adjusted operating loss of $163.8 million for the fourth quarter of 2022. These results reflected improved pulp and paper segment results, offset in part by a decline in lumber segment earnings.

For the lumber segment, adjusted results decreased $6.8 million quarter-over-quarter primarily as a result of a decline in most North American benchmark lumber market prices, with the average North American Random Lengths Western Spruce/Pine/Fir ("SPF") 2x4 2&Btr price and the average Southern Yellow Pine ("SYP") East 2x6 #2 price both down 6% quarter-over-quarter. These factors were offset in part by slightly higher market pricing in Europe. In addition, the current quarter reflected moderately higher production and shipment volumes across all three lumber operating regions, primarily due to increased operating days in the US South and Europe, as well as reduced market-related temporary downtime in Western Canada (approximately 240 million board feet in the current period versus 250 million board feet in the prior quarter).

In January 2023, the Company announced the decision to restructure its lumber operations in British Columbia ("BC") and, as a result, in April 2023, the Company wound down and permanently closed its Chetwynd sawmill and pellet plant and temporarily closed its Houston sawmill for an extended period to facilitate a potential major redevelopment on the site. In connection with these closures, the Company recognized restructuring costs of $11.1 million during the current quarter.

For the pulp and paper segment, the adjusted operating loss was $21.6 million for the first quarter of 2023, a $20.4 million improvement compared to an adjusted operating loss of $42.0 million for the fourth quarter of 2022. These results for the most part reflected a 13% increase in pulp production and an associated decline in pulp unit manufacturing costs.

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 recognized restructuring costs of $2.6 million during the current quarter.

Compared to the first quarter of 2022, adjusted operating results were down $887.2 million from adjusted operating income of $740.8 million in the comparative period, consisting of a $894.2 million decrease in lumber segment earnings and a $5.5 million increase in pulp and paper segment results.

Lower earnings in the lumber segment were principally driven by a material decline in global lumber market prices from near-record highs in the comparative period, coupled with significantly lower production and shipments in Western Canada in the current quarter, a notable uplift in per-unit conversion costs in all three lumber operating regions and a 5% stronger Canadian dollar (versus the Swedish Krona ("SEK")). These factors were offset in part by a 5 cent, or 6%, weaker Canadian dollar (versus the US-dollar) in the current period.

For the pulp and paper segment, improved earnings compared to the first quarter of 2022, principally reflected a substantial uplift in average NBSK sales unit pulp realizations, materially higher paper unit sales realizations and the weaker Canadian dollar, offset in part by reduced pulp shipments and higher pulp unit manufacturing costs quarter-over-quarter.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q1 2023	Q4 2022	Q1 2022
Sales[7]	**$ 1,142.1**	$ 1,105.2	$ 1,993.7
Operating income (loss) before amortization, asset write-down and impairment[7]	**$ (92.2)**	$ (30.6)	$ 851.3
Operating income (loss)[7]	**$ (169.7)**	$ (199.5)	$ 783.0
Asset write-down and impairment	**$ -**	$ 89.0	$ -
Inventory write-down	**$ 58.5**	$ 6.1	$ -
Adjusted operating income (loss)[8]	**$ (111.2)**	$ (104.4)	$ 783.0
Average WSPF 2x4 #2&Btr lumber price in US$[9]	**$ 386**	$ 410	$ 1,274
Average WSPF 2x4 #2&Btr lumber price in Cdn$[9,11]	**$ 522**	$ 557	$ 1,613
Average SYP 2x4 #2 lumber price in US$[10]	**$ 485**	$ 451	$ 1,372
Average SYP 2x4 #2 lumber price in Cdn$[10,11]	**$ 655**	$ 613	$ 1,736
Average SYP 2x6 #2 lumber price in US$[10]	**$ 420**	$ 449	$ 1,102
Average SYP 2x6 #2 lumber price in Cdn$[10,11]	**$ 568**	$ 610	$ 1,395
US housing starts (thousand units SAAR)[12]	**1,395**	1,398	1,720
Production – WSPF lumber (MMfbm)[13]	**531**	507	652
Production – SYP lumber (MMfbm)[13]	**410**	388	420
Production – European lumber (MMfbm)[13]	**373**	349	376
Shipments – WSPF lumber (MMfbm)[14]	**497**	464	585
Shipments – SYP lumber (MMfbm)[14]	**404**	371	399
Shipments – European lumber (MMfbm)[14]	**439**	404	423

[7] Q1 2023 includes sales of $364.5 million, operating income of $31.2 million, and operating income before amortization of $48.3 million from European operations (Q4 2022 – sales of $307.5 million, operating income of $26.9 million, and operating income before amortization of $43.3 million; Q1 2022 – sales of $457.1 million, operating income of $179.2 million, and operating income before amortization of $196.5 million). Operating income from the European operations in Q1 2023 includes $9.3 million in incremental amortization and other expenses driven by the purchase price allocation at acquisition (Q4 2022 - $9.2 million; Q1 2022 - $9.8 million).
[8] Adjusted operating income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[9] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[10] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[11] Average lumber prices in Cdn$ 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 remained under pressure through most of the first quarter of 2023. Residential construction activity was in line with the previous quarter but continued to be impacted by housing affordability constraints stemming from persistent inflationary cost pressures and high interest rates. These ongoing housing sector challenges more than offset slightly improved demand in the repair and remodeling sector and led to a decline in most North American US-dollar benchmark lumber prices in the current quarter.

In January, US housing starts fell to a thirty-month low of 1,321,000 units, principally driven by ongoing inflationary cost pressures and high mortgage rates which hampered affordability. Notwithstanding an uptick in new home construction activity in February, for the current quarter overall, US housing starts averaged 1,395,000 units on a seasonally adjusted basis, broadly in line with the previous quarter, reflecting a 1% decrease in single family starts and a 1% increase in multi-family starts. In Canada, housing starts averaged 223,000 units on a seasonally adjusted basis in the first quarter of 2023, down 14% from the previous quarter primarily reflecting reduced construction of multi-family homes, particularly in major metropolitan areas.

Offshore lumber demand and pricing to Asian markets experienced continued weakness in the first quarter of 2023, most notably in Japan and Korea, due to the combined impact of high inflation and interest rates and elevated lumber inventory levels in those regions. In China, despite the introduction of government stimulus measures early in the current period aimed at reviving the domestic economy, lumber demand and pricing continued to be negatively impacted by high inventory levels in that region.

In Europe, and to a greater extent the United Kingdom ("UK"), lumber demand and pricing experienced a modest improvement through the first quarter of 2023, reflecting a slight uptick in residential construction activity combined with restricted supply from Russia and Belarus. These factors more than outweighed the impact of ongoing weakness in the do-it-yourself sector during the period.

Sales

Sales revenues for the lumber segment for the first quarter of 2023 were $1,142.1 million, up $36.9 million compared to the previous quarter and down $851.6 million from the first quarter of 2022. The 3% increase in sales revenue over the prior quarter largely reflected an 8% increase in shipment volumes, offset in part by moderately lower North American lumber market prices in the current period. Compared to the first quarter of 2022, sales revenues decreased by 43%, principally due to a substantial decline in global lumber market prices compared to the unprecedented pricing experienced in the comparative period. This drop in global lumber pricing was coupled with a 15% decline in Western SPF shipment volumes and the 5% stronger Canadian dollar (versus the SEK), offset in part by 4% higher European shipments and the 6% weaker Canadian dollar (versus the US-dollar) in the current quarter.

Total lumber shipments, at 1.34 billion board feet, were 8% higher than the previous quarter principally reflecting increased production across all three lumber operating regions.

Compared to the first quarter of 2022, total lumber shipments declined 5%, as a 4% uplift in European shipments was more than offset by a 15% reduction in Western Canadian shipments, largely tied to market-related curtailments in the current period. In the US South, shipment volumes were broadly comparable quarter-over-quarter.

The average North American Random Lengths Western SPF 2x4 #2&Btr price began the year at a low of US$345 per Mfbm, climbed slightly in early February, and then declined through most of March, ending the period at US$350 per Mfbm. For the current quarter overall, the North American Random Lengths Western SPF 2x4 #2&Btr price averaged US$386 per Mfbm, down US$24 per Mfbm, or 6%, from the previous quarter. The Company's Western SPF unit sales realizations principally reflected this moderate decline in US-dollar benchmark pricing, as well as lower offshore unit sales realizations quarter-over-quarter (most notably Japan).

The average North American SYP East 2x4 #2 price opened the year at a low of US$395 per Mfbm and improved steadily through most of the current quarter to end the period at US$542 per Mfbm. For the current quarter overall, the SYP East 2x4 #2 price averaged US$485 per Mfbm, up US$34 per Mfbm, or 8%, compared to the previous quarter. The uplift in the average North American SYP East 2x4 #2 price was more than overshadowed, however, by a US$29 per Mfbm, or 6%, decline in the average SYP East 2x6 #2 price to US$420 per Mfbm, combined with more pronounced declines in most wider-width dimension products. Combined, these factors gave rise to a moderate decline in the Company's SYP unit sales realizations quarter-over-quarter.

The Company's European lumber unit sales realizations were slightly lower than the previous quarter as improved market pricing in the UK, and in part, Europe, combined with a 2% weaker Canadian dollar (versus the SEK), were more than offset by the aforementioned pricing declines in North American lumber market pricing.

Compared to the first quarter of 2022, the Company's lumber unit sales realizations were materially lower in all three operating regions, principally due to the substantial drop in global lumber market prices from near-record highs in the comparative period. The Company's Western SPF unit sales realizations reflected a US$888 per Mfbm, or 70%, deterioration 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$887 per Mfbm, or 65%, 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 which decreased US$682 per Mfbm, or 62%, quarter-over-quarter. The Company's European unit sales realizations reflected a substantial decline in global lumber market prices, including European market demand and pricing, from the same period in the prior year, coupled with the stronger Canadian dollar (versus the SEK).

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) decreased moderately compared to the previous quarter, primarily driven by lower log sales revenue in Western Canada, and, to a lesser extent, a reduction in engineered wood revenues in the US South. Compared to the first quarter of 2022, other revenues experienced a modest decline, largely reflecting lower packaging sales in Europe, offset in part by an increase in residual fibre revenues in the same region.

Operations

Total lumber production, at 1.31 billion board feet, was up 6% compared to the previous quarter. In Western Canada, increased production principally reflected reduced market-driven curtailments in the current quarter (approximately 240 million board feet in the current quarter versus 250 million board feet in the prior quarter). Increased production in the US South and Europe quarter-over-quarter was largely associated with fewer statutory holidays in the current period.

Compared to the first quarter of 2022, total lumber production was down 9%, primarily driven by considerably lower Western SPF production as well as slightly lower SYP production in the current quarter. European lumber production was broadly in line with the comparative period. Western SPF production decreased from the same period in the prior year mostly as a result of market-driven curtailments in the current quarter, partially offset by the incremental benefit of a full quarter of production following the acquisition of Millar Western Forest Product Ltd.'s ("Millar Western") solid wood operations in March of 2022. Lower SYP production principally reflected operational downtime in the current quarter.

Lumber unit manufacturing and product costs were modestly lower than the previous quarter, reflecting reductions in both log and per-unit cash conversion costs. Lower log costs quarter-over-quarter were primarily driven by reduced market-based stumpage costs in Western Canada (tied to the drop in Western SPF benchmark lumber prices in the prior quarter), partially offset by an uplift in log costs in Europe, as a result of increased competition for logs in that region stemming from reduced log supply from Russia and wet weather conditions. Reduced per-unit conversion costs compared to the previous quarter principally reflected per-unit cost declines in Europe and Western Canada associated with the benefit of increased production quarter-over-quarter, offset in part by increased labour and maintenance-related spend in the US South.

Compared to the first quarter of 2022, lumber unit manufacturing costs moderately increased largely due to an uplift in per-unit cash conversion costs, most notably in North America. The increase in per-unit cash conversion costs primarily reflected the impact of reduced production and inflationary cost pressures in the current period. Log costs were broadly in line with the comparative period as lower stumpage and purchased wood costs in BC were offset by market-based pricing increases in both the US South and Europe.

Pulp and Paper

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

(millions of Canadian dollars, unless otherwise noted)		**Q1 2023**		Q4 2022		Q1 2022
Sales	**$**	**243.3**	$	268.1	$	220.2
Operating loss before amortization, asset write-down and impairment[16]	**$**	**(0.6)**	$	(15.1)	$	(5.9)
Operating loss	**$**	**(25.2)**	$	(91.1)	$	(26.0)
Asset write-down and impairment	**$**	**-**	$	49.6	$	-
Inventory write-down expense (recovery)	**$**	**3.6**	$	(0.5)	$	(1.1)
Adjusted operating loss[17]	**$**	**(21.6)**	$	(42.0)	$	(27.1)
Average NBSK pulp price delivered to China – US$[18]	**$**	**891**	$	920	$	899
Average NBSK pulp price delivered to China – Cdn$[18]	**$**	**1,204**	$	1,250	$	1,138
Production – pulp (000 mt)		**181**		160		176
Production – paper (000 mt)		**34**		32		34
Shipments – pulp (000 mt)		**152**		170		176
Shipments – paper (000 mt)		**35**		32		31

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

[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

Following the strong global pulp market conditions experienced in 2022, market fundamentals came under modest pressure late in the first quarter of 2023, as relatively stable demand was outweighed by an uptick in global pulp producer inventories. Global softwood pulp producer inventories at the end of February 2023 were well above the balanced range, at 50 days[19] of supply, an increase of seven days from the 43 days of supply at the end of December 2022. Market conditions are generally considered balanced when inventories are in the 32-43 days of supply range.

Consequently, the NBSK US-dollar list price on orders to China saw a modest decline, falling to US$865 per tonne in March 2023. For the current quarter overall, US-dollar NBSK pulp list prices to China averaged US$891 per tonne, down US$29 per tonne, or 3%, from the previous quarter and broadly in line with the first quarter of 2022. Prices to other global regions experienced similar declines in the current period, with the average US-dollar NBSK pulp list price to North America at US$1,675 per tonne (before discounts), down US$70 per tonne, or 4%, from the prior quarter. Compared to the same period in the prior year, however, pulp list prices to North America were up US$148 per tonne, or 10%.

Global kraft paper markets remained relatively stable through the first quarter of 2023, as steady demand and balanced inventories in the North American market was offset by slight declines in offshore markets.

Sales

Pulp shipments for the first quarter of 2023 totaled 152,000 tonnes, down 18,000 tonnes, or 11%, from the previous quarter, and down 24,000 tonnes, or 14%, from the first quarter of 2022. In the current quarter, pulp shipments largely reflected the replenishment of inventory levels significantly reduced in the prior period as a result of CPPI's Intercontinental NBSK pulp mill's ("Intercon") fibre-related curtailment late in 2022, and, to a lesser extent, the timing of vessels at the end of the current quarter. Compared to the first quarter of 2022, the decrease in pulp shipments primarily reflected the rebuild of pulp inventories in the current quarter.

CPPI's average NBSK pulp unit sales realizations experienced a modest decrease compared to the previous quarter, principally tied to the aforementioned declines in global US-dollar list prices quarter-over-quarter. Compared to the first quarter of 2022, however, CPPI's average NBSK pulp unit sales realizations saw a substantial increase, as broadly comparable US-dollar pulp list pricing to China was more than outweighed by an uptick in US-dollar pulp list pricing to North America and the 6% weaker Canadian dollar.

Energy revenues improved in the current quarter compared to the fourth quarter of 2022, largely reflecting a return to more normalized power generation combined with seasonally higher energy prices. Compared to the first quarter of 2022, energy revenues were down, principally due to a reduction in turbine operating days quarter-over-quarter.

Paper shipments in the first quarter of 2023 were 35,000 tonnes, up 3,000 tonnes from the previous quarter, and up 4,000 tonnes from the first quarter of 2022, principally reflecting the timing of shipments around quarter-end compared to both comparative periods.

Paper unit sales realizations in the first quarter of 2023 were broadly in line with the previous quarter, largely reflecting steady global US-dollar paper pricing quarter-over-quarter. Compared to the first quarter of 2022, paper unit sales realizations experienced a substantial increase, primarily driven by a notable improvement in US-dollar prices, especially to North American markets combined with the weaker Canadian dollar.

Operations

Pulp production was 181,000 tonnes for the first quarter of 2023, up 21,000 tonnes, or 13%, from the fourth quarter of 2022, principally reflecting the benefit of improved NBSK productivity in the current period following the numerous difficulties in the prior quarter driven by a shortage of economic fibre and winter weather conditions. CPPI's Intercon pulp mill started the current period curtailed as a result of ongoing fibre shortages, which reduced NBSK pulp production by approximately 35,000 tonnes in the first quarter of 2023. While challenges with operational reliability persisted throughout the current quarter, and impacted NBSK pulp production by approximately 30,000 tonnes, the operating performance at Intercon and at CPPI's Northwood NBSK pulp mill ("Northwood") improved as the quarter progressed.

[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").

In the fourth quarter of 2022, pulp production reflected an operating performance at Northwood and Intercon largely hindered by fibre shortages in the BC Interior, combined with the completion in mid-October of a scheduled maintenance outage at Intercon, as well as ongoing downtime at CPPI's Taylor Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill ("Taylor"), which commenced in the first quarter of 2022 and continued through the balance of 2022. Combined, these factors reduced fourth quarter NBSK pulp production by approximately 90,000 tonnes and BCTMP production by 60,000 tonnes.

Compared to the first quarter of 2022, pulp production was up 5,000 tonnes, or 3%, primarily reflecting an increase in operating days in the current quarter. In the comparative 2022 period, pulp production was principally impacted by an extended outage on one production line at Northwood to enable the replacement of recovery boiler number one's ("RB1") lower furnace (approximately 70,000 tonnes), as well as various smaller operational upsets through the period (approximately 30,000 tonnes).

Pulp unit manufacturing costs were significantly lower in the current quarter compared to the fourth quarter of 2022, as the benefit of increased production volumes, lower maintenance spend and reduced energy costs in the current quarter, more than offset higher chemical costs. Fibre costs were slightly lower than the previous quarter, as a reduction in market-based prices for sawmill residual chips (linked to lower Canadian dollar NBSK pulp sales realizations) offset an increased proportion of higher-cost whole log chips as a result of sawmill curtailments in the current quarter. Compared to the first quarter of 2022, pulp unit manufacturing costs were materially higher, mostly attributable to market-related increases in fibre costs as well as higher chemical costs in the current quarter.

Paper production for the first quarter of 2023 was 34,000 tonnes, up 2,000 tonnes from the previous quarter and in line with the comparative period. The former largely reflected improved productivity in the current period.

Paper unit manufacturing costs were moderately lower than the fourth quarter of 2022, primarily due to a modest reduction in slush pulp costs (tied to the decline in Canadian dollar NBSK pulp unit sales realizations), combined with lower chemical costs and reduced spend on operating supplies in the current period (timing-related). Compared to the first quarter of 2022, paper unit manufacturing costs saw a substantial increase, driven by higher slush pulp costs (tied to increased Canadian dollar NBSK pulp unit sales realizations), as well as an increase in conversion costs quarter-over-quarter.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)	Q1 2023	Q4 2022	Q1 2022
Corporate costs	**$ (13.6)**	$ (17.4)	$ (15.1)
Finance income (expense), net	**$ 3.0**	$ 3.8	$ (4.3)
Foreign exchange gain (loss) on term debt and duty deposits recoverable, net	**$ 0.5**	$ (9.4)	$ 0.5
Gain on derivative financial instruments	**$ 3.5**	$ 4.7	$ 2.8
Other income (expense), net	**$ 4.7**	$ (10.2)	$ 5.9

Corporate costs were $13.6 million for the first quarter of 2023, down $3.8 million from the previous quarter primarily reflecting a donation to the Company's Good Things Come From Trees Foundation (the "Foundation") in the comparative period, offset in part by increased legal costs associated with the softwood lumber dispute in the current period. Compared to the first quarter of 2022, corporate costs were down $1.5 million principally due to elevated costs in the comparative period associated with a contribution to the Foundation as well as legal and consulting costs related to the Millar Western transaction. These factors were partially offset by increased head office and general administrative expenses in the current quarter.

Net finance income of $3.0 million for the first quarter of 2023 was down $0.8 million from the previous quarter, largely due to a decrease in interest income on US-dollar short term investments quarter-over-quarter, offset in part by an increase in accrued interest income on recoverable duty deposits. Net finance expense of $4.3 million in the first quarter of 2022 primarily consisted of interest expense and, to a lesser extent, pension financing costs.

In the first quarter of 2023, the Company recognized a foreign exchange gain of $0.5 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 December 2022 (see further discussion on the term debt financing in the "Liquidity and Financial Requirements" section).

At times, the Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in lumber prices, energy costs, interest and foreign exchange rates. In the first quarter of 2023, the Company recorded a gain of $3.5 million related to its derivative instruments, principally reflecting realized and unrealized mark-to-market gains on lumber futures contracts.

Other income, net, of $4.7 million in the first quarter of 2023 primarily reflected favourable foreign exchange movements on US-dollar denominated working capital balances, as well as the receipt of $2.4 million in insurance proceeds in the current period related to operational downtime experienced at Northwood in recent years.

Other Comprehensive Income (Loss)

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

(millions of Canadian dollars)	Q1 2023	Q4 2022	Q1 2022
Defined benefit actuarial gain (loss), net of tax	**$ 9.6**	$ (4.2)	$ 24.8
Foreign exchange translation differences for foreign operations, net of tax	**$ 4.2**	$ 40.6	$ (65.9)
Other comprehensive income (loss), net of tax	**$ 13.8**	$ 36.4	$ (41.1)

In the first quarter of 2023, the Company recorded a gain of $13.1 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 higher than anticipated return on plan assets. This compared to a loss of $5.8 million (before tax) in the fourth quarter of 2022, associated with updated membership data, partially offset by a greater than anticipated return on plan assets. In the first quarter of 2022, the Company recorded a gain of $34.0 million (before tax), largely due to a 0.8% increase in the discount rate used to value the employee future benefit plans, partially offset by a lower than anticipated return on plan assets.

In addition, the Company recorded an accounting gain of $4.2 million in the first quarter of 2023 related to foreign exchange differences for foreign operations due to the weakening of the Canadian dollar relative to the SEK, offset in part by the strengthening of the Canadian dollar relative to the US-dollar at the end of the quarter. This compared to a gain of $40.6 million in the fourth quarter of 2022 and a loss of $65.9 million in the first 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 for ratios)	Q1 2023	Q4 2022	Q1 2022
Decrease in cash and cash equivalents[20]	**$ (320.7)**	$ (358.5)	$ (222.8)
Operating activities	**$ (226.3)**	$ (52.8)	$ 304.0
Financing activities	**$ (30.3)**	$ (50.7)	$ (12.5)
Investing activities	**$ (64.1)**	$ (255.0)	$ (514.3)
Ratio of current assets to current liabilities	**3.2 : 1**	3.5 : 1	2.8 : 1
Net cash to total capitalization[21]	**(16.9)%**	(26.0)%	(22.8)%
Cumulative duty deposits paid	**$ 897.7**	$ 887.8	$ 771.1

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

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

Operating Activities

Cash used for operating activities was $226.3 million in the first quarter of 2023, compared to cash used of $52.8 million in the previous quarter and cash generated of $304.0 million in the first quarter of 2022. The $173.5 million decrease in operating cash flows from the previous quarter primarily reflected unfavourable movements in non-cash working capital balances combined with lower cash earnings in the current quarter and, to a lesser extent, higher tax installment payments. The former primarily reflected an increase in trade receivables combined with the traditional seasonal log inventory build, partially offset by a timing-related increase in accounts payable and accrued liabilities. Compared to the first quarter of 2022, operating cash flows were down $530.3 million, principally due to lower cash earnings in the current period.

Financing Activities

Cash used for financing activities in the first quarter of 2023 was $30.3 million, compared to cash used of $50.7 million in the previous quarter and $12.5 million in the first quarter of 2022. Financing activities in the current quarter as well as the comparative periods, largely consisted of share repurchases, lease and interest payments.

Investing Activities

Cash used for investing activities was $64.1 million for the current quarter, compared to cash used of $255.0 million for the previous quarter and $514.3 million for the same quarter of 2022. Investing activities in the current quarter and the fourth quarter of 2022 were largely comprised of capital additions. In the first quarter of 2022, investing activities principally included the acquisition of Millar Western for preliminary consideration of $418.1 million, and to a lesser extent, capital additions.

Capital additions in the first quarter of 2023 were $79.6 million, down $198.2 million from the previous quarter and down $16.0 million from the first quarter of 2022 (excluding the aforementioned acquisition of Millar Western). In the lumber segment, current quarter capital expenditures primarily reflected the continued construction of the Company's greenfield sawmill in DeRidder, Louisiana (which is anticipated to be ramping-up production through the second quarter of 2023), ongoing costs related to the upgrade and expansion of the Company's Urbana sawmill, as well as maintenance-of-business capital across all lumber operating regions. In the pulp and paper segment, capital expenditures were primarily comprised of maintenance-of-business capital.

Liquidity and Financial Requirements

Operating Loans - Consolidated

At March 31, 2023, on a consolidated basis, including CPPI and the Vida Group ("Vida"), the Company had cash and cash equivalents of $949.8 million, with $21.9 million drawn on its operating loans and facilities, and an additional $85.2 million reserved for several standby letters of credit. At the end of the quarter, the Company had available, undrawn operating loan facilities of $1,162.9 million, including an undrawn committed revolving credit facility.

Operating Loans – Canfor, excluding Vida and CPPI

Interest is payable on Canfor's committed operating and revolving loan facilities, excluding Vida and CPPI, at floating rates based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar 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 27, 2026.

As at March 31, 2023, Canfor, excluding Vida and CPPI, had available operating loan facilities totaling $1,048.0 million, with $72.2 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans, leaving $975.8 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 4.7% to 5.9%. Vida also has separate overdraft facilities with fixed interest rates ranging from 4.5% to 5.9%. Vida's operating loan facilities have certain financial covenants including minimum equity and interest coverage ratios.

At March 31, 2023, Vida had $11.9 million drawn on its $112.0 million operating loan facilities, leaving $100.1 million available and undrawn at the end of the quarter.

Operating Loans – CPPI

The terms of CPPI's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization and is based on lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar floating rate, plus a margin. CPPI's operating loan facility is repayable on November 1, 2026.

At March 31, 2023, CPPI had a $110.0 million unsecured operating loan facility, with $10.0 million drawn in the current quarter and $13.0 million reserved for several standby letters of credit, leaving $87.0 million available and undrawn on its operating facility at the end of the quarter.

Subsequent to quarter-end, 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. In conjunction with this conversion, the maturity date of the committed operating loan facility was extended to May 2, 2027. The terms of the amended committed operating loan facility are consistent with previous terms, such that interest is payable at floating rates that vary depending on the ratio of debt to capitalization and based on lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar floating rate, plus a margin.

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.

Subsequent to quarter-end, 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-capitalization and re-investment in its facilities. 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 May 2, 2023 this non-revolving term debt remains undrawn.

Net Cash and Liquidity

At March 31, 2023, on a consolidated basis, including CPPI and Vida, the Company had total net cash of $669.0 million, down $313.0 million from the end of the previous quarter. Available liquidity of $2,112.7 million decreased by $314.7 million from the previous quarter.

The Company's consolidated net cash to total capitalization at the end the first quarter of 2023 was 16.9%. For Canfor, excluding CPPI, net cash to capitalization at the end of the first quarter of 2023 was 19.7%.

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

On March 17, 2023, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,052,978 common shares, or approximately 5% of its issued and outstanding common shares as of March 14, 2023. The renewed normal course issuer bid is set to expire on March 20, 2024.

During the first quarter of 2023, the Company purchased 407,800 common shares for $9.2 million (an average price of $22.56 per common share), of which $8.6 million was paid during the current quarter. An additional $2.5 million was paid during the period in relation to shares purchased in the prior quarter.

Shares Outstanding

As at March 31, 2023, and May 2, 2023, there were 120,651,779 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, global lumber market conditions are anticipated to face continued challenges through the second quarter of 2023 as general economic uncertainty accompanied by affordability pressures are projected to continue to weigh on demand. Notwithstanding these headwinds, in the longer term, underlying global lumber market fundamentals are forecast to be solid, principally reflecting strong demographic trends, consistent demand driven by an aging housing stock and low inventories of new homes. Demand in the repair and remodeling sector is anticipated to be strong through the second quarter of 2023, despite inflationary pressures, due to an aged housing stock and seasonal factors.

Offshore lumber demand in Asia is forecast to experience ongoing weakness in the second quarter of 2023 but improve through the latter half of the year as inventories in that region return to more balanced levels. In Europe, lumber demand is anticipated to be solid in the second quarter of 2023 as modest demand in the residential construction segment is combined with a seasonal uptick in the do-it-yourself sector.

Results in the second quarter of 2023 will also reflect the impact on production and shipments of the permanent closure of the Company's Chetwynd sawmill and pellet plant, as well as the temporary closure of its Houston sawmill following their wind down in April 2023.

In the US South, the construction of the Company's greenfield sawmill in DeRidder, Louisiana, is progressing well and its ramp-up in production is anticipated to commence in the second quarter of 2023 and continue through the balance of the year.

Pulp and Paper

Looking forward, global softwood kraft pulp markets are anticipated to continue to weaken through the second quarter of 2023, as relatively stable demand is projected to be overshadowed by above-average global pulp producer inventory levels.

Results in the second quarter of 2023 are also forecast to reflect the impact on pulp production and shipments of the closure of CPPI's pulp line at PG. No major maintenance outages are planned for the second quarter of 2023.

Bleached kraft paper markets are projected to weaken somewhat through the second quarter of 2023 with a modest slowdown in demand anticipated as global kraft paper inventories return to more normalized levels. A maintenance outage is currently planned at CPPI's paper machine in the second quarter of 2023 with a projected 5,000 tonnes of reduced paper production.

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 13 of the condensed consolidated interim financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 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

	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 1,385.4**	$ 1,373.3	$ 1,666.4	$ 2,173.1	$ 2,213.9	$ 1,571.3	$ 1,676.6	$ 2,495.2
Operating income (loss) before amortization, asset write-downs and impairments[22]	**$ (105.7)**	$ (62.6)	$ 211.5	$ 630.3	$ 830.7	$ 321.7	$ 425.4	$ 1,041.3
Operating income (loss)	**$ (208.5)**	$ (308.0)	$ 108.6	$ 531.6	$ 741.9	$ (66.8)	$ 331.0	$ 1,041.3
Net income (loss)	**$ (143.6)**	$ (231.4)	$ 106.5	$ 415.5	$ 570.5	$ (35.5)	$ 256.8	$ 784.6
Shareholder net income (loss)	**$ (142.0)**	$ (207.9)	$ 87.4	$ 373.8	$ 534.0	$ (23.1)	$ 210.0	$ 726.9
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ (1.17)**	$ (1.70)	$ 0.71	$ 3.02	$ 4.29	$ (0.19)	$ 1.68	$ 5.81
Book value[23]	**$ 33.76**	$ 34.87	$ 36.14	$ 34.77	$ 31.96	$ 27.99	$ 28.23	$ 26.26
Statistics								
Lumber shipments (MMfbm)[24]	**1,340**	1,239	1,311	1,528	1,407	1,320	1,316	1,540
Pulp shipments (000 mt)	**152**	170	199	205	176	216	241	285
Average exchange rate – US$/Cdn$	**$ 0.740**	$ 0.736	$ 0.766	$ 0.783	$ 0.790	$ 0.794	$ 0.794	$ 0.814
Average exchange rate – SEK/Cdn$	**7.726**	7.891	8.082	7.708	7.367	7.026	6.865	6.851
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 386**	$ 410	$ 580	$ 866	$ 1,274	$ 711	$ 494	$ 1,342
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 485**	$ 451	$ 722	$ 769	$ 1,372	$ 862	$ 533	$ 1,163
Average SYP (East) 2x6 #2 lumber price (US$)	**$ 420**	$ 449	$ 459	$ 556	$ 1,102	$ 538	$ 407	$ 946
Average NBSK pulp list price delivered to China (US$)	**$ 891**	$ 920	$ 969	$ 1,008	$ 899	$ 723	$ 832	$ 962

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	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Shareholder net income (loss), as reported	**$ (142.0)**	$ (207.9)	$ 87.4	$ 373.8	$ 534.0	$ (23.1)	$ 210.0	$ 726.9
Foreign exchange (gain) loss on term debt	**$ (0.4)**	$ (1.7)	$ 10.6	$ 4.9	$ (3.0)	$ 0.2	$ 2.6	$ (5.7)
(Gain) loss on derivative financial instruments	**$ (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	**$ (2.9)**	$ 81.1	$ 11.1	$ 5.9	$ (5.0)	$ 186.1	$ 1.8	$ (5.7)
Adjusted shareholder net income (loss)[25]	**$ (144.9)**	$ (126.8)	$ 98.5	$ 379.7	$ 529.0	$ 163.0	$ 211.8	$ 721.2
Shareholder net income (loss) per share (EPS), as reported	**$ (1.17)**	$ (1.70)	$ 0.71	$ 3.02	$ 4.29	$ (0.19)	$ 1.68	$ 5.81
Net impact of above items per share	**$ (0.03)**	$ 0.66	$ 0.09	$ 0.05	$ (0.04)	$ 1.50	$ 0.02	$ (0.05)
Adjusted net income (loss) per share[25]	**$ (1.20)**	$ (1.04)	$ 0.80	$ 3.07	$ 4.25	$ 1.31	$ 1.70	$ 5.76

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

NON-IFRS FINANCIAL MEASURES

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

(millions of Canadian dollars)	**Q1 2023**	Q4 2022	Q1 2022
Reported operating income (loss)	**$ (208.5)**	$ (308.0)	741.9
Asset write-downs and impairments	**$ -**	$ 138.6	$ -
Inventory write-down (recovery), net	**$ 62.1**	$ 5.6	$ (1.1)
Adjusted operating income (loss)	**$ (146.4)**	$ (163.8)	$ 740.8
Amortization	**$ 102.8**	$ 106.8	$ 88.8
Adjusted operating income (loss) before amortization, asset write-downs and impairments	**$ (43.6)**	$ (57.0)	$ 829.6

(millions of Canadian dollars, except ratios)	**Q1 2023**	Q4 2022	Q1 2022
Reported operating income (loss)	**$ (208.5)**	$ (308.0)	$ 741.9
Realized (gain) loss on derivative financial instruments	**$ (1.2)**	$ 0.7	$ 3.2
Other income (expense), net	**$ 4.7**	$ (10.2)	$ 5.9
Less: non-controlling interests	**$ (4.3)**	$ (35.6)	$ 55.4
Return (Loss)	**$ (200.7)**	$ (281.9)	$ 695.6
Average invested capital[26]	**$ 4,159.1**	$ 4,021.2	$ 3,511.7
Return on invested capital (ROIC)	**(4.8)%**	(7.0)%	19.8%

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

(millions of Canadian dollars, except ratios)	**As at March 31, 2023**	As at December 31, 2022	As at March 31, 2022
Term debt	**$ 258.9**	$ 258.9	$ 243.4
Operating loans	**$ 21.9**	$ 27.8	$ 21.6
Less: cash and cash equivalents	**$ 949.8**	$ 1,268.7	$ 1,107.4
Net cash	**$ (669.0)**	$ (982.0)	(842.4)
Total equity	**$ 4,619.6**	$ 4,762.8	$ 4,534.9
Total capitalization	**$ 3,950.6**	$ 3,780.8	$ 3,692.5
Net cash to total capitalization	**(16.9)%**	(26.0)%	(22.8)%

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at March 31, 2023**		As at December 31, 2022
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**949.8**	$	1,268.7
Trade receivables		**413.1**		336.0
Other receivables		**112.3**		87.3
Income taxes recoverable		**91.7**		54.2
Inventories (Note 3)		**1,257.6**		1,180.7
Prepaid expenses and other		**179.7**		138.0
Total current assets		**3,004.2**		3,064.9
Property, plant and equipment		**2,203.8**		2,219.1
Right-of-use assets		**104.7**		99.1
Timber licenses		**355.0**		357.8
Goodwill and other intangible assets		**530.9**		532.1
Long-term investments and other (Note 4)		**456.3**		466.2
Total assets	**$**	**6,654.9**	$	6,739.2
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**782.6**	$	678.7
Operating loans (Note 5(a))		**21.9**		27.8
Current portion of deferred reforestation obligations		**60.4**		60.4
Current portion of term debt (Note 5(b))		**45.3**		45.3
Current portion of lease obligations		**26.7**		26.2
Income taxes payable		**0.9**		45.2
Total current liabilities		**937.8**		883.6
Term debt (Note 5(b))		**213.6**		213.6
Retirement benefit obligations (Note 6)		**150.6**		158.3
Lease obligations		**84.7**		79.5
Deferred reforestation obligations		**64.4**		43.8
Other long-term liabilities		**29.8**		32.0
Put liability (Note 7)		**177.7**		172.7
Deferred income taxes, net		**376.7**		392.9
Total liabilities	**$**	**2,035.3**	$	1,976.4
EQUITY				
Share capital	**$**	**951.9**	$	955.1
Contributed surplus and other equity		**(161.9)**		(157.7)
Retained earnings		**3,202.2**		3,341.5
Accumulated other comprehensive income		**86.8**		82.6
Total equity attributable to equity shareholders of the Company		**4,079.0**		4,221.5
Non-controlling interests		**540.6**		541.3
Total equity	**$**	**4,619.6**	$	4,762.8
Total liabilities and equity	**$**	**6,654.9**	$	6,739.2

Subsequent Event (Note 5)

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, The Hon. J.R. Baird

Canfor Corporation
Condensed Consolidated Statements of Income (Loss)

(millions of Canadian dollars, except per share data, unaudited)	3 months ended March 31, **2023**	2022
Sales	**$ 1,385.4**	$ 2,213.9
Costs and expenses		
Manufacturing and product costs	**1,237.8**	1,113.4
Freight and other distribution costs	**166.0**	190.5
Countervailing and anti-dumping duty expense, net (Note 12)	**29.2**	37.9
Amortization	**102.8**	88.8
Selling and administration costs	**44.4**	41.4
Restructuring costs (Note 13)	**13.7**	-
	1,593.9	1,472.0
Operating income (loss)	**(208.5)**	741.9
Finance income (expense), net	**3.0**	(4.3)
Foreign exchange gain on term debt	**0.5**	3.5
Foreign exchange loss on duties recoverable, net	**-**	(3.0)
Gain on derivative financial instruments (Note 7)	**3.5**	2.8
Other income, net	**4.7**	5.9
Net income (loss) before income taxes	**(196.8)**	746.8
Income tax recovery (expense) (Note 8)	**53.2**	(176.3)
Net income (loss)	**$ (143.6)**	$ 570.5
Net income (loss) attributable to:		
Equity shareholders of the Company	**$ (142.0)**	$ 534.0
Non-controlling interests	**(1.6)**	36.5
Net income (loss)	**$ (143.6)**	$ 570.5
Net income (loss) per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 9)	**$ (1.17)**	$ 4.29

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

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

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2023**	2022
Net income (loss)	**$ (143.6)**	$ 570.5
Other comprehensive income (loss)		
Items that will not be reclassified subsequently to net income (loss):		
Defined benefit plan actuarial gains, net (Note 6)	**13.1**	34.0
Income tax expense on defined benefit plan actuarial gains, net (Note 8)	**(3.5)**	(9.2)
	9.6	24.8
Items that may be reclassified subsequently to net income (loss):		
Foreign exchange translation of foreign operations, net of tax	**4.2**	(65.9)
Other comprehensive income (loss), net of tax	**13.8**	(41.1)
Total comprehensive income (loss)	**$ (129.8)**	$ 529.4
Total comprehensive income (loss) attributable to:		
Equity shareholders of the Company	**$ (129.1)**	$ 489.7
Non-controlling interests	**(0.7)**	39.7
Total comprehensive income (loss)	**$ (129.8)**	$ 529.4

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

Canfor Corporation
Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2023	2022
Share capital		
Balance at beginning of period	**$ 955.1**	$ 982.2
Share purchases (Note 9)	**(3.2)**	(2.1)
Balance at end of period	**$ 951.9**	$ 980.1
Contributed surplus and other equity		
Balance at beginning of period	**$ (157.7)**	$ (130.9)
Put liability (Note 7)	**(4.2)**	3.9
Balance at end of period	**$ (161.9)**	$ (127.0)
Retained earnings		
Balance at beginning of period	**$ 3,341.5**	$ 2,586.8
Net income (loss) attributable to equity shareholders of the Company	**(142.0)**	534.0
Defined benefit plan actuarial gains, net of tax	**8.7**	21.6
Share purchases (Note 9)	**(6.0)**	(5.2)
Balance at end of period	**$ 3,202.2**	$ 3,137.2
Accumulated other comprehensive income (loss)		
Balance at beginning of period	**$ 82.6**	$ 45.9
Foreign exchange translation of foreign operations, net of tax	**4.2**	(65.9)
Balance at end of period	**$ 86.8**	$ (20.0)
Total equity attributable to equity shareholders of the Company	**$ 4,079.0**	$ 3,970.3
Non-controlling interests		
Balance at beginning of period	**$ 541.3**	$ 525.1
Net income (loss) attributable to non-controlling interests	**(1.6)**	36.5
Defined benefit plan actuarial gains attributable to non-controlling interests, net of tax	**0.9**	3.2
Distributions to non-controlling interests	**-**	(0.2)
Balance at end of period	**$ 540.6**	$ 564.6
Total equity	**$ 4,619.6**	$ 4,534.9

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2023	2022
Cash generated from (used in):		
Operating activities		
Net income (loss)	**$ (143.6)**	$ 570.5
Items not affecting cash:		
Amortization	**102.8**	88.8
Income tax (recovery) expense	**(53.2)**	176.3
Change in long-term portion of deferred reforestation obligations, net	**20.1**	17.8
Foreign exchange gain on term debt	**(0.5)**	(3.5)
Foreign exchange loss on duty deposits recoverable, net	**-**	3.0
Duties paid (greater) less than accruals (Note 12)	**19.4**	(50.7)
Changes in mark-to-market value of derivative financial instruments	**(2.3)**	(6.1)
Employee future benefits expense	**5.3**	2.0
Restructuring costs (Note 13)	**13.7**	-
Finance (income) expense, net	**(3.0)**	4.3
Other, net	**(1.7)**	1.1
Defined benefit plan contributions, net	**(3.4)**	(3.8)
Income taxes paid, net	**(57.2)**	(208.0)
	(103.6)	591.7
Net change in non-cash working capital (Note 10)	**(122.7)**	(287.7)
	(226.3)	304.0
Financing activities		
Operating loan drawings (repayments), net	**(6.0)**	3.8
Proceeds from (repayments of) term debt, net	**0.1**	(0.1)
Payments of lease obligations	**(7.7)**	(6.9)
Finance expenses paid	**(5.6)**	(3.4)
Share purchases (Note 9)	**(11.1)**	(5.7)
Cash distributions paid to non-controlling interests	**-**	(0.2)
	(30.3)	(12.5)
Investing activities		
Additions to property, plant and equipment and intangible assets, net	**(79.6)**	(95.6)
Acquisition of Millar Western	**-**	(418.1)
Interest income received	**9.3**	0.4
Other, net	**6.2**	(1.0)
	(64.1)	(514.3)
Foreign exchange gain (loss) on cash and cash equivalents	**1.8**	(24.6)
Decrease in cash and cash equivalents*	**(318.9)**	(247.4)
Cash and cash equivalents at beginning of period*	**1,268.7**	1,354.8
Cash and cash equivalents at end of period*	**$ 949.8**	$ 1,107.4

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Corporation and its subsidiaries, hereinafter referred to as "Canfor" or "the Company." Significant subsidiaries include Canfor Southern Pine, Inc. ("CSP") and entities related to the acquisition of Millar Western Forest Products Ltd. ("Millar Western"), which are wholly owned, as well as Canfor Pulp Products Inc. ("CPPI") and the Vida Group ("Vida"), of which Canfor owned 54.8% and 70.0%, respectively, at March 31, 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 May 2, 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 March 31, 2023**		As at December 31, 2022
Logs	**$**	**380.8**	$	305.3
Finished products		**699.5**		693.5
Residual fibre		**19.7**		27.0
Materials and supplies		**157.6**		154.9
	$	**1,257.6**	$	1,180.7

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended March 31, 2023, a $58.5 million inventory write-down expense was recognized for the lumber segment (three months ended March 31, 2022 – no inventory valuation adjustment). At March 31, 2023, an inventory provision of $154.2 million has been recognized for logs and lumber (December 31, 2022 – provision of $95.7 million).

For the three months ended March 31, 2023, a $3.6 million inventory write-down expense was recognized for the pulp and paper segment (three months ended March 31, 2022 – $1.1 million write-down recovery). At March 31, 2023, a provision for finished pulp, wood chips and logs of $6.0 million was 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 March 31, 2023**		As at December 31, 2022
Duty deposits recoverable, net (Note 12)	**$**	**357.9**	$	372.9
Other deposits, loans, advances and long-term assets		**42.8**		49.3
Other investments		**34.3**		33.4
Retirement benefit surplus		**10.9**		9.6
Deferred income taxes, net		**10.4**		1.0
	$	**456.3**	$	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 March 31, 2023, including interest receivable of $45.6 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 March 31, 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$150.0 million)		**203.0**		203.2
Facilities for letters of credit		**70.0**		70.0
Total operating loan facilities		**1,048.0**		1,048.2
Letters of credit covered under operating loan facility		**(2.7)**		(2.7)
Letters of credit covered under facilities for letters of credit		**(69.5)**		(66.3)
Total available operating loan facilities - Canfor	**$**	**975.8**	$	979.2
Vida				
Available operating loans:				
Operating loan facilities	**$**	**66.7**	$	66.4
Overdraft facilities		**45.3**		43.8
Total operating loan facilities		**112.0**		110.2
Operating loan facilities drawn		**(11.9)**		(12.8)
Total available operating loan facilities – Vida	**$**	**100.1**	$	97.4
CPPI				
Available operating loans:				
Operating loan facility	**$**	**110.0**	$	110.0
Letters of credit		**(13.0)**		(12.9)
Operating loan facility drawn		**(10.0)**		(15.0)
Total available operating loan facility – CPPI	**$**	**87.0**	$	82.1
Consolidated:				
Total operating loan facilities	**$**	**1,270.0**	$	1,268.4
Total operating loan facilities drawn	**$**	**(21.9)**	$	(27.8)
Total letters of credit	**$**	**(85.2)**	$	(81.9)
Total available operating loan facilities	**$**	**1,162.9**	$	1,158.7

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 27, 2026 and CPPI's operating loan facility is repayable on November 1, 2026.

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 4.7% to 5.9%. Vida also has separate overdraft facilities with fixed interest rates ranging from 4.5% to 5.9%.

Canfor and CPPI's operating loan facilities have certain financial covenants, including maximum debt to total capitalization ratios. Vida is also subject to certain financial covenants, including minimum equity and interest coverage ratios. As at March 31, 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.

Subsequent to quarter-end, 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. In conjunction with this conversion, the maturity date of the committed operating loan facility was extended to May 2, 2027. The terms of the amended committed operating loan facility are consistent with previous terms, such that interest is payable at floating rates that vary depending on the ratio of debt to capitalization and based on lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar floating rate, plus a margin.

(b) Term Debt

(millions of Canadian dollars, unaudited)		**As at March 31, 2023**		As at December 31, 2022
Canfor (excluding Vida and CPPI)				
US$50.0 million, floating interest, repayable on June 28, 2031	**$**	**67.7**	$	67.7
US$100.0 million, fixed interest of 4.4%, repayable in three equal tranches on October 2, 2023, 2024 and 2025		**135.3**		135.4
Other		**5.2**		5.2
Vida				
SEK 1.2 million, floating interest, repayable April 30, 2023		**0.2**		0.1
SEK 0.8 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		**0.4**		0.4
CPPI				
CAD $50.0 million, floating interest, repayable November 1, 2025		**50.0**		50.0
Term debt at end of period	**$**	**258.9**	$	258.9
Less: Current portion		**(45.3)**		(45.3)
Long-term portion	**$**	**213.6**	$	213.6

Canfor’s and CPPI’s term debt (excluding Vida) is unsecured. Vida’s term debt is secured by its property, plant and equipment. Canfor’s and CPPI’s borrowings (excluding Vida) are subject to certain financial covenants, including a maximum debt to total capitalization ratio. Vida’s borrowings are subject to certain financial covenants, including minimum equity and interest coverage ratios. As at March 31, 2023, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their term debt.

Subsequent to quarter-end, 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-capitalization and re-investment in its facilities. 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 May 2, 2023 this non-revolving term debt remains undrawn.

Fair value of total term debt

At March 31, 2023, the fair value of the Company’s term debt is $243.5 million (December 31, 2022 – $241.7 million), determined based on prevailing market rates for term debt with similar characteristics and risk profile.

6. Retirement Benefit Obligations

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

For the three months ended March 31, 2022, actuarial gains of $34.0 million (before tax) were recognized in other comprehensive income (loss), reflecting a 0.8% increase in the discount rate used to value the net defined benefit obligations, offset in part by a lower than anticipated return on plan assets.

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

	Defined Benefit Pension Plans	**Other Benefit Plans**
March 31, 2023	**4.8%**	**4.8%**
December 31, 2022	4.8%	4.8%
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 March 31, 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 March 31, 2023**		As at December 31, 2022
Financial assets measured at fair value					
Investments	Level 1	**$**	**32.2**	$	31.7
Derivative financial instruments	Level 1		**4.3**		2.0
Duty deposits recoverable, net (Note 4)	Level 3		**357.9**		372.9
		$	**394.4**	$	406.6
Financial liabilities measured at fair value					
Put liability	Level 3	**$**	**177.7**	$	172.7
		$	**177.7**	$	172.7

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

		3 months ended March 31,		
(millions of Canadian dollars, unaudited)		**2023**		2022
Lumber futures	**$**	**3.6**	$	2.3
Foreign exchange forward contracts		**(0.1)**		0.5
Gain on derivative financial instruments	**$**	**3.5**	$	2.8

During the three months ended March 31, 2023, a loss of $4.2 million was recognized in 'Other Equity' on the Company's condensed consolidated interim balance sheet following remeasurement of the put liability (three months ended March 31, 2022 – gain of $3.9 million), primarily reflecting the passage of time. As a result of this remeasurement, combined with a foreign exchange loss of $0.8 million (three months ended March 31, 2022 – gain of $7.3 million), the balance of the put liability was $177.7 million at March 31, 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 March 31,		
(millions of Canadian dollars, unaudited)		**2023**		2022
Current	**$**	**23.7**	$	(176.5)
Deferred		**29.5**		0.2
Income tax recovery (expense)	**$**	**53.2**	$	(176.3)

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

		3 months ended March 31,		
(millions of Canadian dollars, unaudited)		**2023**		2022
Income tax recovery (expense) at statutory rate of 27.0% (2022 – 27.0%)	**$**	**53.1**	$	(201.6)
Add:				
Non-taxable income related to non-controlling interests		**(0.2)**		-
Entities with different income tax rates and other tax adjustments		**1.3**		24.9
Permanent difference from capital gains and losses and other non-deductible items		**(1.0)**		0.4
Income tax recovery (expense)	**$**	**53.2**	$	(176.3)

In addition to the amounts recorded to net income (loss), a tax expense of $3.5 million was recorded to other comprehensive income (loss) in relation to actuarial gains, net, on the defined benefit plans for the three months ended March 31, 2023 (three months ended March 31, 2022 – $9.2 million).

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

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

	3 months ended March 31,	
	2023	2022
Weighted average number of common shares	**120,986,093**	124,476,151

On March 17, 2023, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,052,978 common shares, or approximately 5% of its issued and outstanding common shares as at March 14, 2023. The renewed normal course issuer bid is set to expire on March 20, 2024.

During the three months ended March 31, 2023, the Company purchased 407,800 common shares for $9.2 million (an average of $22.56 per common share), of which $8.6 million was paid during the quarter. An additional $2.5 million was paid during the three months ended March 31, 2023, in relation to shares purchased in the prior quarter.

As at March 31, 2023 and May 2, 2023, based on the trade date, there were 120,651,779 common shares of the Company outstanding and Canfor's ownership interest in CPPI and Vida was 54.8% and 70.0%, respectively.

10. Net Change in Non-Cash Working Capital

	3 months ended March 31,	
(millions of Canadian dollars, unaudited)	**2023**	2022
Trade and other receivables	**$ (99.2)**	$ (170.5)
Inventories	**(75.9)**	(199.6)
Prepaid expenses and other	**(38.9)**	(1.9)
Accounts payable and accrued liabilities and current portion of deferred reforestation obligations	**91.3**	84.3
Net change in non-cash working capital	**$ (122.7)**	$ (287.7)

11. Segment Information

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

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

(millions of Canadian dollars, unaudited)	Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment	Consolidated
3 months ended March 31, 2023					
Sales from contracts with customers	**$ 1,142.1**	**$ 243.3**	**$ -**	**$ -**	**$ 1,385.4**
Sales to other segments	**44.4**	**-**	**-**	**(44.4)**	**-**
Operating loss	**(169.7)**	**(25.2)**	**(13.6)**	**-**	**(208.5)**
Amortization	**77.5**	**24.6**	**0.7**	**-**	**102.8**
Capital expenditures[1,2]	**63.9**	**12.0**	**3.7**	**-**	**79.6**
Total assets	**4,404.8**	**736.1**	**1,514.0**	**-**	**6,654.9**
3 months ended March 31, 2022					
Sales from contracts with customers	$ 1,993.7	$ 220.2	$ -	$ -	$ 2,213.9
Sales to other segments	37.4	0.1	-	(37.5)	-
Operating income (loss)	783.0	(26.0)	(15.1)	-	741.9
Amortization	68.3	20.1	0.4	-	88.8
Capital expenditures[1]	76.1	18.4	1.1	-	95.6
Total assets	4,537.5	814.4	1,463.0	-	6,814.9

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

Geographic information

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

(millions of Canadian dollars, unaudited)	3 months ended March 31,		**2023**	3 months ended March 31,		2022
Sales by location of customer						
Canada	**12%**	**$**	**170.6**	10%	$	220.3
United States	**49%**		**681.5**	60%		1,341.0
Europe	**21%**		**288.9**	16%		353.1
Asia	**15%**		**208.6**	12%		257.0
Other	**3%**		**35.8**	2%		42.5
	100%	**$**	**1,385.4**	100%	$	2,213.9

12. Countervailing and Anti-Dumping Duties

In 2016, a petition was filed by the US Lumber Coalition to the US Department of Commerce ("DOC") and the US International Trade Commission ("ITC") alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers. Canfor was selected by the DOC as a "mandatory respondent" to the countervailing and anti-dumping investigations and is subject to company specific CVD and ADD rates. As a result of the DOC's investigation, CVD and ADD were imposed on the Company's Canadian lumber exports to the United States beginning in 2017. As at March 31, 2023, Canfor has paid cumulative cash deposits of $897.7 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 months ended March 31, 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 $357.9 million is included on the Company's condensed consolidated interim balance sheet (Note 4) reflecting differences between the cash deposit rates and the Company's combined accrual rates for each period of review, including interest. For the three months ended March 31, 2023, the Company recorded a net duty expense of $29.2 million, comprised of the following:

(millions of Canadian dollars, unaudited)		3 months ended March 31, **2023**
Cash deposits paid	**$**	**9.8**
Duty expense attributable to POR6 – combined CVD and ADD[3]		**19.4**
Duty expense, net	**$**	**29.2**

[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 $13.7 million during the three months ended March 31, 2023.