2023

QUARTER THREE

INTERIM REPORT

FOR THE THREE MONTHS ENDED SEPT. 30, 2023

CANFOR CORPORATION

2 Message to Shareholders

6 Management’s Discussion and Analysis

21 Condensed Consolidated Balance Sheets

22 Condensed Consolidated Statements of Income (Loss)

23 Condensed Consolidated Statements of Other Comprehensive Income (Loss)

24 Condensed Consolidated Statements of Changes in Equity

25 Condensed Consolidated Statements of Cash Flows

26 Notes to the Condensed Consolidated Interim Financial Statements

To Our Shareholders

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

Overview

- Q3 2023 consolidated operating loss of $65 million, including a $49 million operating loss from the pulp business; adjusted operating loss of $86 million; adjusted shareholder net loss of $19 million, or $0.16 per share
- Continued strong results in the US South; solid European results despite seasonal downtime; another challenging quarter for Western Canada
- Persistent pressure on global lumber market demand and pricing through much of the quarter
- Market-driven curtailments in Western Canada & seasonal downtime in Europe led to lower shipments
- Confirmed future investment of approximately $200 million in a new, state-of-the-art manufacturing facility in Houston, British Columbia
- Challenging results for Canfor Pulp despite stable global pulp market fundamentals; Northwood NBSK Pulp Mill scheduled maintenance completed as planned; restart delayed due to operational challenges

Financial Results

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

(millions of Canadian dollars, except per share amounts)	Q3 2023	Q2 2023	YTD 2023	Q3 2022	YTD 2022
Sales	**$ 1,312.3**	$ 1,446.0	**$ 4,143.7**	$ 1,666.4	$ 6,053.4
Reported operating income (loss) before amortization	**$ 42.6**	$ 41.0	**$ (22.1)**	$ 211.5	$ 1,672.5
Reported operating income (loss)	**$ (65.1)**	$ (66.7)	**$ (340.3)**	$ 108.6	$ 1,382.1
Adjusted operating income (loss) before amortization[1]	**$ 21.8**	$ (16.4)	**$ (38.2)**	$ 300.0	$ 1,760.4
Adjusted operating income (loss)[1]	**$ (85.9)**	$ (124.1)	**$ (356.4)**	$ 197.1	$ 1,470.0
Net income (loss)[2]	**$ (23.1)**	$ (43.9)	**$ (209.0)**	$ 87.4	$ 995.2
Net income (loss) per share, basic and diluted[2]	**$ (0.19)**	$ (0.36)	**$ (1.74)**	$ 0.71	$ 8.05
Adjusted net income (loss)[1, 2]	**$ (19.4)**	$ (44.3)	**$ (208.6)**	$ 98.5	$ 1,007.2
Adjusted net income (loss) per share, basic and diluted[1, 2]	**$ (0.16)**	$ (0.36)	**$ (1.73)**	$ 0.80	$ 8.15

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

For the third quarter of 2023, the Company reported a consolidated operating loss of $65.1 million, which included a $49.3 million operating loss from Canfor Pulp Products Inc. ("CPPI"). This compares to a consolidated operating loss of $66.7 million in the second quarter of 2023, $37.9 million of which was attributed to CPPI.

Results in the current quarter include a net $20.8 million reversal of a previously recognized inventory write-down, principally driven by the lumber segment, as well as a net duty recovery of $43.3 million (US$34.7 million) resulting from the finalization of countervailing ("CVD") and anti-dumping duty ("ADD") rates applicable to the fourth period of review ("POR4").

Lumber Segment Highlights and Outlook

For the lumber segment, adjusted results increased $59.7 million quarter-over-quarter. In the US South, results remained solid quarter-over-quarter as a 5% increase in the Southern Yellow Pine ("SYP") East 2x6 #2 price and higher production and shipment volumes, largely driven by the newly constructed sawmill in DeRidder, Louisiana, ("DeRidder"), were offset by a 7% decline in the SYP East 2x4 #2. Earnings in Europe in the current period principally reflected a modest improvement in market pricing in the United Kingdom ("UK"), offset by the Company's regular summer downtime in the period and a 3% stronger Canadian dollar (versus the Swedish Krona ("SEK")). In Western Canada, the ongoing challenging results primarily reflected a 17% increase in the average North American Random Lengths Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr price offset by lower production and shipment volumes quarter-over-quarter mainly driven by an increase in market-related downtime in the current period as well as a full quarter impact of mill closures, which took effect in April.

Lumber market fundamentals remained relatively subdued through most of the third quarter of 2023. Market-related curtailments and wildfires, particularly in Western Canada, continued well into the current quarter constraining North American lumber supply. These supply pressures were met with solid repair and remodeling activity and a slight uptick in new home construction in July, despite ongoing affordability challenges tied to high interest rates and persistent inflation. As a result, most North American US-dollar benchmark lumber prices posted modest gains early in the period but softened through the balance of the quarter as supply constraints eased.

Notwithstanding affordability headwinds, high home prices and low inventory in the existing home market led to an increase in US housing starts in July, particularly for single-family units which consume approximately three times the volume of lumber compared to multi-family homes. Extreme heat across much of the Southern US in August, however, hindered building activity through the balance of the period. As a result, for the current quarter overall, US housing starts averaged 1,359,000 units on a seasonally adjusted basis, down 6% from the previous quarter, reflecting a 3% increase in single-family starts and a 24% decline in multi-family starts. In Canada, housing starts averaged 259,000 units on a seasonally adjusted basis in the third quarter of 2023, up 4% from the previous quarter, primarily driven by a 5% increase in the construction of multi-family homes, with a consistent level of activity seen for single-family homes.

Offshore lumber pricing to Asian markets remained relatively stable in the third quarter of 2023, as improved demand in China and Japan was met with elevated inventory levels in those regions, due in part to an influx of supply from Russia and Europe in the previous quarter.

In Europe, lumber demand and pricing saw a modest improvement quarter-over-quarter, especially in the UK, driven largely by ongoing strength in the repair and remodeling segment.

Operationally, in the US South, the Company continued to successfully ramp-up its greenfield DeRidder facility and transitioned effectively to two shifts in August. The ramp-up of this facility is progressing well and is forecast to continue to improve through the balance of 2023.

In Western Canada, the Company announced its plan to invest approximately $200 million in a new, state-of-the-art manufacturing facility in Houston, British Columbia ("BC"). This decision followed a comprehensive evaluation of the availability of economic fibre in the region, as well as customer requirements, to support a successful investment. The low cost, high efficiency facility will have an annual production capacity of approximately 350 million board feet. In the fourth quarter of 2023, work began on detailed project engineering and permitting requirements. Vendor and equipment selection is anticipated to be finalized in early 2024, with demolition and site preparation scheduled for the spring.

Looking ahead, although longer-term lumber market fundamentals remain positive, affordability constraints are anticipated to continue to weigh on demand in the near to mid-term. High mortgage rates, persistent inflation and geopolitical tensions are forecast to exert pressure on new home construction activity through the balance of the year and into 2024. On the positive side, persistent underlying demand for housing in North America, coupled with low supply of existing home inventories, are projected to support the housing sector in the long-term. In the repair and remodeling segment, demand is anticipated to be muted through the fourth quarter of 2023 due to affordability constraints combined with seasonal factors.

Offshore lumber demand in Japan is projected to remain somewhat muted through the balance of 2023, reflecting general economic uncertainty and a slowed housing market. The same demand trend is anticipated for China, despite the introduction of government stimulus measures mid-year. Pricing to China, however, is estimated to improve slightly in the coming months, due to reduced European imports and a continued draw-down of inventories in that region.

European lumber pricing is forecast to face downward pressure through the fourth quarter of 2023 driven mainly by low levels of residential construction activity, moderated to a degree, by continued strength in the do-it-yourself space.

Looking forward from an operational perspective, there remains significant uncertainty with regards to the availability of economically viable fibre in BC. This uncertainty is driven by recent wildfire events, combined with the lasting impacts of the Mountain Pine Beetle epidemic, uncertainties associated with unsettled land and title claims by various Indigenous Nations and outstanding policy, land use decisions and legislative initiatives by the BC Government. While the Company has taken a number of actions in recent years in response to these fibre constraints, the near-term outlook in BC remains challenging. As a result, the Company continues to anticipate sustained log cost pressures in BC for its sawmills and a challenging fibre supply environment for CPPI's pulp mills (both for sawmill residual chips and whole-log chips). With these continued log cost pressures and the projected weaker North American lumber market demand and pricing, the Company will continue to adjust operating rates to align with demand and economically available timber supply.

Pulp and Paper Segment Highlights and Outlook

For the pulp and paper segment, the adjusted operating loss was $51.3 million for the third quarter of 2023, compared to an adjusted operating loss of $31.0 million for the second quarter of 2023. These results principally reflected the continuation of soft global pulp market conditions throughout most of the current period combined with extensive downtime at CPPI's Northwood Northern Bleached Softwood Kraft ("NBSK") pulp mill ("Northwood") driven by supply chain disruptions and scheduled maintenance, as well as persistent reliability challenges and a delayed restart. When combined, these factors drove a significant unfavourable timing lag in CPPI's shipments (versus orders) and led to a substantial decline in CPPI's NBSK pulp sales unit realizations in the current quarter.

Global softwood pulp market fundamentals were relatively flat through the current quarter, following a significant decline in the preceding quarter. Later in the period, however, buyers started to regain some market confidence, with lower global pulp pricing leading to a slight increase in purchasing activity, as producers worked to reduce their higher-than-average inventory levels. Consequently, US-dollar NBSK list prices to China, the world's largest pulp consumer, saw some positive momentum towards the end of the quarter, ending September at US$715 per tonne. As a result, average US-dollar NBSK pulp list prices to China for the current quarter were US$680 per tonne, up US$12 per tonne, or 2%, from the previous quarter. Notwithstanding the slight uplift in US-dollar NBSK list prices to China in the current period, CPPI's average NBSK pulp unit sales realizations experienced a significant decrease compared to the previous quarter, principally driven by an unfavourable timing lag in shipments (versus orders), which was exacerbated by CPPI's reduced pulp production in the current quarter, and was combined with the ongoing deterioration in pulp market conditions and pricing to other global regions, including North America.

Looking forward, global softwood pulp markets are anticipated to experience a slight improvement in the fourth quarter of 2023, as elevated inventory levels slowly begin to normalize following the seasonally slower summer months. These factors are projected to be tempered by general global economic uncertainty and pressures.

CPPI's results in the fourth quarter of 2023 will reflect the aforementioned operational challenges at Northwood associated with the delayed startup, with a projected 30,000 tonnes of reduced NBSK pulp production, combined with higher associated maintenance costs and lower shipment volumes. These factors are also anticipated to give rise to a larger-than-normal unfavourable timing lag in shipments (vs orders) and thus it is estimated that fourth quarter results will reflect persistently lower NBSK pulp sales unit realizations, regardless of any uptick in US-dollar NBSK list prices that may arise.

While no major maintenance outages are planned at CPPI's operations in the fourth quarter of 2023, given the ongoing uncertainty with regards to the availability of economically viable fibre in BC, and a projected weaker North American lumber market, CPPI anticipates a challenging fibre supply environment for its pulp mills (both for sawmill residual chips and whole-log chips). CPPI will continue to monitor operating conditions and will adjust operating rates, to align with economically viable fibre supply, through the balance of 2023 and into 2024.

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

Non-IFRS Financial Measures

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

(millions of Canadian dollars)	**Q3 2023**	Q2 2023	**YTD 2023**	Q3 2022	YTD 2022
Reported operating income (loss)	**$ (65.1)**	$ (66.7)	**$ (340.3)**	$ 108.6	$ 1,382.1
Inventory write-down (recovery), net	**$ (20.8)**	$ (57.4)	**$ (16.1)**	$ 88.5	$ 87.9
Adjusted operating income (loss)	**$ (85.9)**	$ (124.1)	**$ (356.4)**	$ 197.1	$ 1,470.0
Amortization	**$ 107.7**	$ 107.7	**$ 318.2**	$ 102.9	$ 290.4
Adjusted operating income (loss) before amortization	**$ 21.8**	$ (16.4)	**$ (38.2)**	$ 300.0	$ 1,760.4

After-tax impact, net of non-controlling interests (millions of Canadian dollars)	**Q3 2023**	Q2 2023	**YTD 2023**	Q3 2022	YTD 2022
Net income (loss)[3]	**$ (23.1)**	$ (43.9)	**$ (209.0)**	$ 87.4	$ 995.2
Foreign exchange (gain) loss on term debt	**$ 6.4**	$ (6.7)	**$ (0.7)**	$ 10.6	$ 12.5
(Gain) loss on derivative financial instruments	**$ (2.7)**	$ 6.3	**$ 1.1**	$ 0.5	$ (0.5)
Adjusted net income (loss)[3]	**$ (19.4)**	$ (44.3)	**$ (208.6)**	$ 98.5	$ 1,007.2

[3] Attributable to equity shareholders of the Company.

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

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

THIRD QUARTER 2023

Overview

(millions of Canadian dollars)	Q3 2023	Q2 2023	YTD 2023	Q3 2022	YTD 2022
Operating income (loss)	**$ (65.1)**	$ (66.7)	**$ (340.3)**	$ 108.6	$ 1,382.1
Inventory write-down (recovery), net	**$ (20.8)**	$ (57.4)	**$ (16.1)**	$ 88.5	$ 87.9
Adjusted operating income (loss)	**$ (85.9)**	$ (124.1)	**$ (356.4)**	$ 197.1	$ 1,470.0
Amortization	**$ 107.7**	$ 107.7	**$ 318.2**	$ 102.9	$ 290.4
Adjusted operating income (loss) before amortization	**$ 21.8**	$ (16.4)	**$ (38.2)**	$ 300.0	$ 1,760.4

Selected Financial Information and Statistics

(millions of Canadian dollars, except ratios)	Q3 2023	Q2 2023	YTD 2023	Q3 2022	YTD 2022
Operating income (loss) by segment:					
Lumber	**$ (1.3)**	$ (15.5)	**$ (186.5)**	$ 101.6	$ 1,436.7
Pulp and Paper	**$ (49.3)**	$ (37.9)	**$ (112.4)**	$ 19.2	$ (14.9)
Unallocated and Other	**$ (14.5)**	$ (13.3)	**$ (41.4)**	$ (12.2)	$ (39.7)
Total operating income (loss)	**$ (65.1)**	$ (66.7)	**$ (340.3)**	$ 108.6	$ 1,382.1
Add: Amortization[1]	**$ 107.7**	$ 107.7	**$ 318.2**	$ 102.9	$ 290.4
Total operating income (loss) before amortization	**$ 42.6**	$ 41.0	**$ (22.1)**	$ 211.5	$ 1,672.5
Add (deduct):					
Working capital movements	**$ 151.8**	$ 151.7	**$ 180.8**	$ 184.2	$ 105.3
Defined benefit plan contributions, net	**$ (2.9)**	$ (15.4)	**$ (21.7)**	$ (3.0)	$ (9.8)
Income taxes received (paid), net	**$ 41.8**	$ (17.9)	**$ (33.3)**	$ (98.9)	$ (419.9)
Adjustment to accrued duties[2]	**$ (22.8)**	$ 22.6	**$ 19.2**	$ (105.6)	$ (201.6)
Other operating cash flows, net[3]	**$ (4.9)**	$ 1.8	**$ 40.2**	$ (3.8)	$ 19.3
Cash from operating activities	**$ 205.6**	$ 183.8	**$ 163.1**	$ 184.4	$ 1,165.8
Add (deduct):					
Capital additions, net	**$ (192.9)**	$ (142.4)	**$ (414.9)**	$ (138.8)	$ (347.5)
Finance expenses paid	**$ (6.7)**	$ (10.8)	**$ (23.1)**	$ (4.4)	$ (14.2)
Repayments and conversion of term debt, net	**$ (0.1)**	$ (50.1)	**$ (50.1)**	$ (0.1)	$ (0.3)
Share purchases	**$ (12.2)**	$ (11.5)	**$ (34.8)**	$ (2.4)	$ (48.6)
Purchase of long-term investments	**$ (48.0)**	$ -	**$ (48.0)**	$ -	$ -
Acquisition of Millar Western	**$ -**	$ -	**$ -**	$ -	$ (434.0)
Distributions to non-controlling interests	**$ (0.4)**	$ (61.9)	**$ (62.3)**	$ (1.7)	$ (62.8)
Foreign exchange gain (loss) on cash and cash equivalents	**$ 12.4**	$ (40.3)	**$ (26.1)**	$ 34.0	$ 1.2
Other, net[3]	**$ (0.1)**	$ 1.5	**$ 9.2**	$ (18.5)	$ (26.3)
Change in cash / operating loans	**$ (42.4)**	$ (131.7)	**$ (487.0)**	$ 52.5	$ 233.3
ROIC – Consolidated period-to-date[4]	**(1.1)%**	(1.5)%	**(7.4)%**	2.4%	34.1%
Average exchange rate (US$ per C$1.00)[5]	**$ 0.746**	$ 0.745	**$ 0.743**	$ 0.766	$ 0.779
Average exchange rate (SEK per C$1.00)[5]	**8.056**	7.833	**7.869**	8.082	7.708

[1] Amortization includes amortization of certain capitalized major maintenance costs.
[2] Adjusted to true-up preliminary anti-dumping duty 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)	Q3 2023	Q2 2023	YTD 2023	Q3 2022	YTD 2022
Shareholder net income (loss), as reported	**$ (23.1)**	$ (43.9)	**$ (209.0)**	$ 87.4	$ 995.2
Foreign exchange (gain) loss on term debt	**$ 6.4**	$ (6.7)	**$ (0.7)**	$ 10.6	$ 12.5
(Gain) loss on derivative financial instruments	**$ (2.7)**	$ 6.3	**$ 1.1**	$ 0.5	$ (0.5)
Net impact of above items	**$ 3.7**	$ (0.4)	**$ 0.4**	$ 11.1	$ 12.0
Adjusted shareholder net income (loss)[6]	**$ (19.4)**	$ (44.3)	**$ (208.6)**	$ 98.5	$ 1,007.2
Shareholder net income (loss) per share (EPS), as reported	**$ (0.19)**	$ (0.36)	**$ (1.74)**	$ 0.71	$ 8.05
Net impact of above items per share	**$ 0.03**	$ -	**$ 0.01**	$ 0.09	$ 0.10
Adjusted shareholder net income (loss) per share[6]	**$ (0.16)**	$ (0.36)	**$ (1.73)**	$ 0.80	$ 8.15

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

For the third quarter of 2023, the Company reported a consolidated operating loss of $65.1 million, which included a $49.3 million operating loss from Canfor Pulp Products Inc. ("CPPI"). This compares to a consolidated operating loss of $66.7 million in the second quarter of 2023, $37.9 million of which was attributed to CPPI.

Results in the current quarter include a net $20.8 million reversal of a previously recognized inventory write-down, principally driven by the lumber segment, as well as a net duty recovery of $43.3 million (US$34.7 million) resulting from the finalization of countervailing ("CVD") and anti-dumping duty ("ADD") rates applicable to the fourth period of review ("POR4").

For the lumber segment, adjusted results increased $59.7 million quarter-over-quarter. In the US South, results remained solid quarter-over-quarter as a 5% increase in the Southern Yellow Pine ("SYP") East 2x6 #2 price and higher production and shipment volumes, largely driven by the newly constructed sawmill in DeRidder, Louisiana, ("DeRidder"), were offset by a 7% decline in the SYP East 2x4 #2. Earnings in Europe in the current period principally reflected a modest improvement in market pricing in the United Kingdom ("UK"), offset by the Company's regular summer downtime in the period and a 3% stronger Canadian dollar (versus the Swedish Krona ("SEK")). In Western Canada, the ongoing challenging results primarily reflected a 17% increase in the average North American Random Lengths Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr price offset by lower production and shipment volumes quarter-over-quarter mainly driven by an increase in market-related downtime in the current period as well as a full quarter impact of mill closures, which took effect in April.

For the pulp and paper segment, the adjusted operating loss was $51.3 million for the third quarter of 2023, compared to an adjusted operating loss of $31.0 million for the second quarter of 2023. These results principally reflected the continuation of soft global pulp market conditions throughout most of the current period combined with extensive downtime at CPPI's Northwood Northern Bleached Softwood Kraft ("NBSK") pulp mill ("Northwood") driven by supply chain disruptions and scheduled maintenance, as well as persistent reliability challenges and a delayed restart. When combined, these factors drove a significant unfavourable timing lag in CPPI's shipments (versus orders) and led to a substantial decline in CPPI's NBSK pulp sales unit realizations in the current quarter.

In January 2023, 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") NBSK Pulp and Paper mill. In connection with this closure, CPPI's Intercontinental NBSK pulp mill ("Intercon") was successfully converted to provide slush pulp to its specialty paper facility. The combined impact of these operating structure changes is a reduction of approximately 280,000 tonnes of market kraft pulp production annually.

Compared to the third quarter of 2022, adjusted operating results were down $283.0 million from an adjusted operating income of $197.1 million in the comparative period, primarily consisting of a $211.3 million decrease in lumber segment earnings combined with a $69.4 million decrease in pulp and paper segment results.

The reduction in lumber segment earnings quarter-over-quarter largely reflected a material decline in global lumber market prices. This was combined with lower production and shipments in Western Canada in the current period, offset in part, by higher production and shipments in the US South and Europe combined with a 2 cent, or 3%, weaker Canadian dollar (versus the US-dollar).

For the pulp and paper segment, compared to the third quarter of 2022, adjusted operating results declined $69.4 million, primarily reflecting significantly lower US-dollar NBSK pulp list prices, combined with a substantial reduction in production and shipment volumes in the current quarter.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	**Q3 2023**	Q2 2023	**YTD 2023**	Q3 2022	YTD 2022
Sales[7]	**$ 1,123.5**	$ 1,196.5	**$ 3,462.1**	$ 1,358.1	$ 5,236.1
Operating income before amortization[7]	**$ 84.1**	$ 69.0	**$ 60.9**	$ 176.6	$ 1,654.5
Operating income (loss)[7]	**$ (1.3)**	$ (15.5)	**$ (186.5)**	$ 101.6	$ 1,436.7
Inventory write-down (recovery), net	**$ (18.8)**	$ (64.3)	**$ (24.6)**	$ 89.6	$ 89.6
Adjusted operating income (loss)[8]	**$ (20.1)**	$ (79.8)	**$ (211.1)**	$ 191.2	$ 1,526.3
Average WSPF 2x4 #2&Btr lumber price in US$[9]	**$ 419**	$ 358	**$ 388**	$ 580	$ 907
Average WSPF 2x4 #2&Btr lumber price in Cdn$[9,11]	**$ 562**	$ 481	**$ 522**	$ 757	$ 1,164
Average SYP 2x4 #2 lumber price in US$[10]	**$ 452**	$ 486	**$ 474**	$ 722	$ 954
Average SYP 2x4 #2 lumber price in Cdn$[10,11]	**$ 606**	$ 652	**$ 638**	$ 943	$ 1,225
Average SYP 2x6 #2 lumber price in US$[10]	**$ 404**	$ 385	**$ 403**	$ 459	$ 706
Average SYP 2x6 #2 lumber price in Cdn$[10,11]	**$ 542**	$ 517	**$ 542**	$ 599	$ 906
US housing starts (thousand units SAAR)[12]	**1,359**	1,450	**1,398**	1,446	1,600
Production – WSPF lumber (MMfbm)[13]	**495**	542	**1,568**	504	1,814
Production – SYP lumber (MMfbm)[13]	**451**	428	**1,289**	401	1,230
Production – European lumber (MMfbm)[13]	**278**	344	**995**	272	1,014
Shipments – WSPF lumber (MMfbm)[14]	**534**	578	**1,609**	595	1,861
Shipments – SYP lumber (MMfbm)[14]	**443**	435	**1,282**	417	1,239
Shipments – European lumber (MMfbm)[14]	**311**	393	**1,143**	299	1,146

[7] Q3 2023 includes sales of $286.3 million, operating income of $14.1 million, and operating income before amortization of $30.9 million from European operations (Q2 2023 – sales of $357.7 million, operating income of $37.3 million, and operating income before amortization of $54.4 million; Q3 2022 – sales of $340.0 million, operating income of $41.6 million, and operating income before amortization of $57.4 million). Operating income from the European operations in Q3 2023 includes $8.9 million in incremental amortization and other expenses driven by the purchase price allocation at acquisition (Q2 2023 - $9.2 million; Q3 2022 - $8.9 million).
[8] Adjusted operating income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[9] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[10] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[11] Average lumber prices in Cdn$ 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

Lumber market fundamentals remained relatively subdued through most of the third quarter of 2023. Market-related curtailments and wildfires, particularly in Western Canada, continued well into the current quarter constraining North American lumber supply. These supply pressures were met with solid repair and remodeling activity and a slight uptick in new home construction in July, despite ongoing affordability challenges tied to high interest rates and persistent inflation. As a result, most North American US-dollar benchmark lumber prices posted modest gains early in the period but softened through the balance of the quarter as supply constraints eased.

Notwithstanding affordability headwinds, high home prices and low inventory in the existing home market led to an increase in US housing starts in July, particularly for single-family units which consume approximately three times the volume of lumber compared to multi-family homes. Extreme heat across much of the Southern US in August, however, hindered building activity through the balance of the period. As a result, for the current quarter overall, US housing starts averaged 1,359,000 units on a seasonally adjusted basis, down 6% from the previous quarter, reflecting a 3% increase in single-family starts and a 24% decline in multi-family starts. In Canada, housing starts averaged 259,000 units on a seasonally adjusted basis in the third quarter of 2023, up 4% from the previous quarter, primarily driven by a 5% increase in the construction of multi-family homes, with a consistent level of activity seen for single-family homes.

Offshore lumber pricing to Asian markets remained relatively stable in the third quarter of 2023, as improved demand in China and Japan was met with elevated inventory levels in those regions, due in part to an influx of supply from Russia and Europe in the previous quarter.

In Europe, lumber demand and pricing saw a modest improvement quarter-over-quarter, especially in the UK, driven largely by ongoing strength in the repair and remodeling segment.

Sales

Sales revenues for the lumber segment for the third quarter of 2023 were $1,123.5 million, down $73.0 million compared to the previous quarter and down $234.6 million from the third quarter of 2022. The 6% decrease in sales revenue over the prior quarter predominantly reflected a 21% and 8% decrease in European and Western SPF shipment volumes, respectively, offset in part by improved lumber unit sales realizations in those regions quarter-over-quarter.

Compared to the third quarter of 2022, sales revenues declined by 17%, principally due to a material reduction in global lumber market prices. This pricing drop was combined with a 10% decrease in Western SPF shipment volumes, offset in part by higher SYP and European shipments and the 3% weaker Canadian dollar (versus the US-dollar) in the current quarter.

Total lumber shipments, at 1.29 billion board feet, were 8% lower than the previous quarter primarily as a result of reduced production in Europe, and to a lesser extent, Western Canada.

Compared to the third quarter of 2022, total lumber shipments were down 2%, as moderately higher SYP and European shipments, largely attributable to production improvements quarter-over-quarter, were offset by lower Western SPF shipments, as a decline in production was combined with reduced railcar availability in the current period.

The average North American Random Lengths Western SPF 2x4 #2&Btr price began the period at US$420 per Mfbm and climbed to a quarterly high of US$450 per Mfbm mid-July. Through the balance of the current quarter however, the North American Random Lengths Western SPF 2x4 #2&Btr price declined intermittently, ending September at US$398 per Mfbm. As a result, for the current quarter overall, the North American Random Lengths Western SPF 2x4 #2&Btr price averaged US$419 per Mfbm, up US$61 per Mfbm, or 17%, from the previous quarter. The Company's Western SPF unit sales realizations primarily reflected this increase in US-dollar benchmark pricing, moderated to a degree, by less favourable pricing movements for certain wider-width and low-grade products.

The average North American SYP East 2x6 #2 price experienced similar pricing appreciation as Western SPF early in the quarter, opening the period at US$430 per Mfbm and reaching a high of US$460 per Mfbm in July. Following some pricing declines in August and September, the North American SYP East 2x6 #2 price ended the period at US$345 per Mfbm, and averaged US$404 per Mfbm for the quarter overall, up US$19 per Mfbm, or 5%, from the previous quarter. Conversely, the SYP East 2x4 #2 price averaged US$452 per Mfbm in the third quarter of 2023, down US$34 per Mfbm, or 7%, from the previous quarter. As the decline in the North American SYP East 2x4 #2 price overshadowed the uplift in the average SYP East 2x6#2 price, the Company's SYP unit sales realizations decreased slightly quarter-over-quarter.

The Company's European lumber unit sales realizations were slightly higher than the previous quarter principally reflecting improved market pricing in the UK, mitigated in part by the 3% stronger Canadian dollar (versus the SEK).

Compared to the third 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. The Company's Western SPF unit sales realizations principally reflected a US$161 per Mfbm, or 28%, decline in the average North American Random Lengths Western SPF 2x4 #2&Btr price and, to a lesser extent, unfavourable offshore unit sales realizations, offset somewhat by the 3% weaker Canadian dollar (versus the US-dollar) in the current quarter. Similarly, the Company's SYP unit sales realizations reflected a US$270 per Mfbm, or 37%, fall in the average SYP East 2x4 #2 price over the same comparative period, mitigated to a degree by less pronounced declines for wider-width dimension products, including the SYP East 2x6 #2 which decreased US$55 per Mfbm, or 12%, from the same period in the prior year. The decline in the Company's European unit sales realizations was largely attributable to the substantial decline in global lumber market prices, including the European and UK markets, from the comparative quarter in the prior year.

Other revenues for the Company's lumber segment (which are primarily comprised of residual fibre, pulp log and pellets sales, as well as the Company's European operations' other related revenues) decreased modestly compared to the previous quarter, principally reflecting declines in other European revenues largely attributable to seasonal production downtime, and, to a lesser extent, the stronger Canadian dollar (versus the SEK). These factors were offset in part by higher log sales in Western Canada. Compared to the third quarter of 2022, other revenues were up slightly across all regions. In Western Canada, an increase in log sales in the current period outweighed the impact of lower pellet sales, while increases in Europe, and, to a lesser extent the US South, largely reflected an uplift in residual revenues quarter-over-quarter.

<u>Operations</u>

Total lumber production, at 1.22 billion board feet, was down 7% compared to the previous quarter. In Western Canada, production was 9% lower quarter-over-quarter primarily due to an increase in market-related curtailments in the current period (approximately 200 million board feet in the current quarter versus 170 million board feet in the prior quarter), coupled with the full quarter impact of reduced production following the permanent and temporary closures of Chetwynd and Houston, respectively, in April 2023. For the Company's European operations, reduced production in the current period was attributable to four weeks of regular seasonal downtime in July and August. These declines were offset by a 5% uplift in production in the US South as the Company's new DeRidder sawmill completed its ramp-up and progressed to two-shifts in the current quarter, combined with improved productivity across the region.

Compared to the third quarter of 2022, total lumber production was up 4%, largely driven by increased SYP production tied to the start-up of the Company's newly constructed DeRidder sawmill in early 2023, and to a lesser extent, operational efficiencies in the US South and Europe quarter-over-quarter.

Lumber unit manufacturing and product costs were relatively consistent quarter-over-quarter, as a moderate uptick in per-unit cash conversion costs was mostly offset by lower log costs. The former principally reflected the incremental impact of lower production volumes in Western Canada and Europe, as the per-unit benefit of increased production in the US South was mitigated by higher cash spend on labour and supplies in that region. In British Columbia ("BC"), lower log costs were primarily correlated with reduced market-based stumpage rates in the current quarter following the continued declines in Western SPF benchmark lumber pricing. These log cost reductions were offset in part by market-based log price increases in Europe stemming from ongoing log supply constraints. Log costs in the US South were broadly comparable to the prior quarter.

Compared to the third quarter of 2022, lumber unit manufacturing and product costs were moderately lower, reflecting declines in both log and per-unit cash conversion costs. Log cost reductions were most notable in Western Canada as a result of significantly lower BC stumpage costs in the current quarter (associated with the drop in Western SPF benchmark lumber prices from the comparative period), moderated to a degree, by higher European log costs tied to supply pressures in that region. Lower per-unit cash conversion costs were primarily driven by Western Canada, reflecting reduced cash spend on labour and energy, offset somewhat by the unfavourable per-unit impact of lower production volumes in that region in the current quarter. These reductions in Western Canada were mitigated by higher per-unit cash conversion costs in Europe in the current period attributable to inflationary related pressures on spend.

Pulp and Paper

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

(millions of Canadian dollars, unless otherwise noted)	Q3 2023	Q2 2023	YTD 2023	Q3 2022	YTD 2022
Sales	**$ 188.8**	$ 249.5	**$ 681.6**	$ 308.3	$ 817.3
Operating income (loss) before amortization[16]	**$ (27.7)**	$ (15.3)	**$ (43.6)**	$ 46.7	$ 56.5
Operating income (loss)	**$ (49.3)**	$ (37.9)	**$ (112.4)**	$ 19.2	$ (14.9)
Inventory write-down expense (recovery), net	**$ (2.0)**	$ 6.9	**$ 8.5**	$ (1.1)	$ (1.7)
Adjusted operating income (loss)[17]	**$ (51.3)**	$ (31.0)	**$ (103.9)**	$ 18.1	$ (16.6)
Average NBSK pulp price delivered to China – US$[18]	**$ 680**	$ 668	**$ 746**	$ 969	$ 959
Average NBSK pulp price delivered to China – Cdn$[18]	**$ 912**	$ 897	**$ 1,004**	$ 1,265	$ 1,231
Production – pulp (000 mt)	**123**	151	**455**	195	558
Production – paper (000 mt)	**32**	30	**96**	33	100
Shipments – pulp (000 mt)	**142**	179	**473**	199	580
Shipments – paper (000 mt)	**30**	32	**97**	32	97

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

Markets

Global softwood pulp market fundamentals were relatively flat through the third quarter of 2023, following a significant decline in the preceding quarter. Later in the period, however, buyers started to regain some market confidence, with lower global pulp pricing leading to a slight increase in purchasing activity, as producers worked to reduce their higher-than-average inventory levels. Consequently, US-dollar NBSK list prices to China, the world's largest pulp consumer, saw some positive momentum towards the end of the quarter, ending September at US$715 per tonne. As a result, average US-dollar NBSK pulp list prices to China for the current quarter were US$680 per tonne, up US$12 per tonne, or 2%, from the previous quarter. Compared to the third quarter of 2022, however, pulp list prices to China were down US$289 per tonne, or 30%.

Even with the modest positive signals seen in China late in the current period, demand and pricing in other global regions remained challenging during the third quarter, with the average US-dollar NBSK pulp list price to North America falling sharply to US$1,293 per tonne (before discounts), down US$217 per tonne, or 14%, from the previous quarter, and down US$507 per tonne, or 28%, compared to the same period from last year.

Global softwood pulp producer inventories steadily improved as the current quarter progressed, ending September 2023 at 38 days[19] of supply, a decline of 13 days from June 2023. (Market conditions are generally considered balanced when inventories are within a normal range of 32-43 days of supply).

The softness in global kraft paper market conditions experienced at the end of the previous quarter continued throughout the third quarter of 2023, particularly in the North American market.

Sales

Pulp shipments for the third quarter of 2023 totaled 142,000 tonnes, down 37,000 tonnes, or 21%, from the previous quarter, and down 57,000 tonnes, or 29%, from the third quarter of 2022. Decreased pulp shipments in the current quarter largely reflected the 19% decline in pulp production and, to a lesser extent, the timing of vessels quarter-over-quarter. Compared to the third quarter of 2022, the decrease in pulp shipments primarily reflected the 37% reduction in pulp production, offset in part by a drawdown of inventory levels in the current year following the closure of the pulp line at PG in April.

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

Notwithstanding the slight uplift in US-dollar NBSK list prices to China in the current period, CPPI's average NBSK pulp unit sales realizations experienced a significant decrease compared to the previous quarter, principally driven by an unfavourable timing lag in shipments (versus orders), which was exacerbated by CPPI's reduced pulp production in the current quarter, and was combined with the ongoing deterioration in pulp market conditions and pricing to other global regions, including North America.

Compared to the third quarter of 2022, CPPI's average NBSK pulp unit sales realizations saw a substantial decline, primarily driven by the aforementioned downward pressure on global US-dollar pulp list pricing, offset in part by the 3% weaker Canadian dollar.

Energy revenues were broadly in line with the prior quarter and moderately higher than the third quarter of 2022. The latter was principally driven by improved energy generation despite the decreased pulp production quarter-over-quarter.

Paper shipments in the third quarter of 2023 were 30,000 tonnes, down 2,000 tonnes from both comparative periods, principally tied to the timing of shipments around quarter-end.

Paper unit sales realizations in the third quarter of 2023 were modestly lower than the previous quarter, largely reflecting growing pressure on global US-dollar paper pricing in the current period. Compared to the third quarter of 2022, paper unit sales realizations experienced a slight decline, as softening US-dollar pricing quarter-over-quarter, especially to the North American market, was offset in part by the weaker Canadian dollar.

Operations

Pulp production was 123,000 tonnes for the third quarter of 2023, down 28,000 tonnes, or 19%, from the second quarter of 2023. Early in the current quarter, NBSK pulp production was impacted by a labour dispute at the Ports of Vancouver and Prince Rupert which put pressure on an already constrained logistics network in BC. As a direct result, with pulp mill inventories at capacity, CPPI curtailed Northwood in July for approximately one week, with 10,000 tonnes of reduced NBSK pulp production. In addition, as planned, NBSK pulp production was decreased by the successful completion of a scheduled maintenance outage at Northwood in September (approximately 25,000 tonnes). Later in the period, however, the restart of Northwood was delayed into the fourth quarter by numerous operational difficulties, unrelated to the scheduled maintenance downtime, that resulted in a further reduction in NBSK pulp production (approximately 10,000 tonnes in the third quarter). This slow ramp up further emphasizes the general operational reliability challenges at Northwood in 2023, which, in the current quarter, also impacted NBSK pulp production by approximately 20,000 tonnes.

In the second quarter of 2023, CPPI's pulp production primarily reflected operational footprint changes, which took effect in April, as well as, operational challenges at Northwood (approximately 40,000 tonnes).

Compared to the third quarter of 2022, pulp production was down 72,000 tonnes, or 37%, mainly due to the aforementioned operating platform changes quarter-over-quarter, combined with planned and unplanned downtime at Northwood in the current period. In the comparative 2022 period, pulp production was principally impacted by the completion in mid-July of Northwood's scheduled maintenance outage (approximately 16,000 tonnes) as well as the commencement in September of Intercon's planned maintenance downtime (approximately 6,000 tonnes).

Pulp unit manufacturing costs experienced a modest increase compared to the prior quarter principally driven by lower pulp production, and, to a lesser extent, elevated chemical costs, offset to a degree by reduced fibre costs in the current period. Fibre costs showed a moderate decline, as lower market-based prices for sawmill residual chips (linked to lower Canadian dollar NBSK pulp sales realizations) were combined with a reduction in the proportion of higher-cost whole log chips quarter-over-quarter. Compared to the third quarter of 2022, pulp unit manufacturing costs were slightly higher, as the impact on unit costs of a significant reduction in pulp production was mostly offset by reduced energy costs and a decline in fibre costs in the current period, largely tied to lower market-based prices for sawmill residual chips.

Paper production for the third quarter of 2023 was 32,000 tonnes, up 2,000 tonnes from the previous quarter and broadly in line with the same period in the prior year. The former was principally driven by the scheduled maintenance outage at CPPI's paper machine in the prior quarter.

Paper unit manufacturing costs were moderately lower than the second quarter of 2023, primarily due to a substantial reduction in slush pulp costs (tied to the notable decline in Canadian dollar NBSK pulp unit sales realizations). Compared to the third quarter of 2022, paper unit manufacturing costs saw a significant decline, principally driven by a notable decrease in slush pulp costs, offset in part by higher energy costs in the current period following the closure of CPPI's pulp line at PG in April 2023.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)	Q3 2023	Q2 2023	YTD 2023	Q3 2022	YTD 2022
Corporate costs	**$ (14.5)**	$ (13.3)	**$ (41.4)**	$ (12.2)	$ (39.7)
Finance income (expense), net	**$ 5.6**	$ (0.9)	**$ 7.7**	$ 4.8	$ (2.8)
Foreign exchange gain on term debt and duties recoverable, net	**$ 3.8**	$ 0.5	**$ 4.8**	$ 9.3	$ 11.8
Gain (loss) on derivative financial instruments	**$ 4.9**	$ (10.6)	**$ (2.2)**	$ (1.0)	$ (0.8)
Other income, net	**$ 3.9**	$ 6.7	**$ 15.3**	$ 16.8	$ 37.3

Corporate costs were $14.5 million for the third quarter of 2023, up $1.2 million from the previous quarter primarily reflecting an increase in legal costs associated with the softwood lumber dispute, and, to a lesser extent, higher head office and general administrative expenses in the current period. Compared to the third quarter of 2022, corporate costs were up $2.3 million as a result of increased head office and general administrative expenses in the current quarter.

Net finance income of $5.6 million for the third quarter of 2023 was up $6.5 million from the previous quarter, largely due to an increase in accrued interest income on recoverable duty deposits following the finalization of CVD and ADD rates for POR4, and, to a lesser extent, lower interest expense quarter-over-quarter. These factors were partially offset by reduced interest income on US-dollar short term investments in the current period. Net finance income of $4.8 million in the third quarter of 2022 primarily consisted of accrued interest income on recoverable duty deposits related to the finalization of CVD and ADD rates for the third period of review ("POR3"), and in part, interest income on US-dollar short term investments.

In the third quarter of 2023, the Company recognized a foreign exchange gain of $11.2 million on its US-dollar denominated net duty deposits recoverable at the close of the current quarter, offset by a loss of $7.4 million on its US-dollar term debt held by Canadian entities due to the weakening of the Canadian dollar compared to the end of June 2023 (see further discussion on 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 third quarter of 2023, the Company recorded a gain of $4.9 million related to its derivative instruments, mostly due to unrealized mark-to-market gains on SEK foreign exchange forward contracts.

Other income, net, of $3.9 million in the third quarter of 2023 primarily reflected favourable foreign exchange movements on US-dollar denominated working capital balances, combined with CPPI's receipt of incremental insurance proceeds 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)	Q3 2023	Q2 2023	YTD 2023	Q3 2022	YTD 2022
Defined benefit plan actuarial gain (loss), net of tax	**$ (2.5)**	$ 3.8	**$ 10.9**	$ (7.3)	$ 31.1
Foreign exchange translation differences for foreign operations, net of tax	**$ 50.5**	$ (102.6)	**$ (47.9)**	$ 84.5	$ (3.9)
Other comprehensive income (loss), net of tax	**$ 48.0**	$ (98.8)	**$ (37.0)**	$ 77.2	$ 27.2

In the third quarter of 2023, the Company recorded a loss of $3.3 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), as a 0.3% increase in the discount rate used to value the net defined benefit obligations was more than offset by lower than anticipated returns on plan assets. This compared to a gain of $5.1 million (before tax) in the second quarter of 2023, which principally reflected a 0.1% increase in the discount rate combined with higher than anticipated returns on plan assets. In the third quarter of 2022, the Company recorded a loss of $10.0 million (before tax), reflecting a 0.2% decrease in the discount rate, offset in part by higher than anticipated returns on plan assets.

In addition, the Company recorded an accounting gain of $50.5 million in the third quarter of 2023 related to foreign exchange differences for foreign operations due to the weakening of the Canadian dollar relative to the US-dollar, and to a lesser extent, the SEK, at the end of the quarter. This compared to a loss of $102.6 million in the second quarter of 2023 and a gain of $84.5 million in the third quarter of 2022.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except ratios)	**Q3 2023**	Q2 2023	**YTD 2023**	Q3 2022	YTD 2022
Increase (decrease) in cash and cash equivalents[20]	**$ (35.4)**	$ (48.8)	**$ (404.9)**	$ 33.8	$ 245.5
Operating activities	**$ 205.6**	$ 183.8	**$ 163.1**	$ 184.4	$ 1,165.8
Financing activities	**$ (8.5)**	$ (98.7)	**$ (137.5)**	$ 0.8	$ (128.7)
Investing activities	**$ (232.5)**	$ (133.9)	**$ (430.5)**	$ (151.4)	$ (791.6)
Ratio of current assets to current liabilities	**2.6:1**	3.0:1	**2.6:1**	3.4:1	3.4:1
Net cash to total capitalization[21]	**(14.2)%**	(15.6)%	**(14.2)%**	(35.5)%	(35.5)%
Cumulative duty deposits paid	**$ 920.2**	$ 908.7	**$ 920.2**	$ 878.2	$ 878.2

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

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

Operating Activities

Cash generated from operating activities was $205.6 million in the third quarter of 2023, compared to cash generated of $183.8 million in the previous quarter and $184.4 million in the third quarter of 2022. The $21.8 million increase in operating cash flows from the previous quarter primarily reflected income tax refunds received in the current period, partially offset by lower cash earnings. Compared to the third quarter of 2022, operating cash flows were up $21.2 million, largely due to income tax refunds received in the current period offset in part by lower cash earnings and, to a lesser extent, unfavourable movements in non-cash working capital balances quarter-over-quarter. The latter was primarily driven by a timing-related decrease in accounts payable and accrued liabilities at the end of the current period.

Financing Activities

Cash used for financing activities in the third quarter of 2023 was $8.5 million, compared to cash used of $98.7 million in the previous quarter and cash generated of $0.8 million in the third quarter of 2022. Financing activities in the current quarter primarily reflected $12.2 million of share repurchases, combined with lease and interest payments, offset in part by a net $19.3 million draw-down of the Company's operating loan facilities (refer to the "Liquidity and Financial Requirements" section for further details). In the second quarter of 2023, financing activities primarily reflected $61.9 million of cash distributions to non-controlling interests, $11.5 million of share purchases, and to a lesser extent, lease and interest payments. Financing activities in the previous quarter also included the conversion of CPPI's $50.0 million term debt into its existing operating loan facility, and a $5.0 million net repayment of its operating loan facility. In the third quarter of 2022, financing activities primarily reflected a $15.0 million draw-down of CPPI's principal operating loan facility offset by lease and interest payments.

Investing Activities

Cash used for investing activities was $232.5 million for the current quarter, compared to $133.9 million for the previous quarter and $151.4 million for the comparative period of 2022. Investing activities in the current quarter were primarily comprised of capital additions, and to a lesser extent, the purchase of investments in certain funds at a cost of $48.0 million. These highly liquid investments, with maturities exceeding one year, were subsequently measured at fair value through net income (loss) and classified as level 1 on the fair value hierarchy under IFRS. Investing activities in both comparable periods were largely comprised of capital additions.

Capital additions in the third quarter of 2023 were $192.9 million, up $50.5 million from the previous quarter and up $54.1 million from the same quarter of 2022. In the lumber segment, current quarter capital expenditures primarily reflected construction costs associated with the Company's greenfield sawmill in Axis, Alabama, and to a lesser extent, ongoing spend related to the upgrade and expansion of the Company's Urbana sawmill in Arkansas, and final costs associated with its greenfield DeRidder facility. The Company continued to successfully ramp-up DeRidder during the current quarter and transitioned effectively to two shifts in August. The ramp-up of this facility is progressing well and is forecast to continue to improve through the balance of 2023.

In Western Canada, the Company announced its plan to invest approximately $200 million in a new, state-of-the-art manufacturing facility in Houston, BC. This decision followed a comprehensive evaluation of the availability of economic fibre in the region, as well as customer requirements, to support a successful investment. The low cost, high efficiency facility will have an annual production capacity of approximately 350 million board feet. In the fourth quarter of 2023, work began on detailed project engineering and permitting requirements. Vendor and equipment selection is anticipated to be finalized in early 2024, with demolition and site preparation scheduled for the spring.

In the pulp and paper segment, capital expenditures were primarily associated with maintenance-of-business spend, including Northwood's scheduled maintenance outage and inspection of recovery boiler number one ("RB1").

Liquidity and Financial Requirements

Operating Loans - Consolidated

At September 30, 2023, on a consolidated basis, including CPPI and the Vida Group ("Vida"), the Company had cash and cash equivalents of $837.7 million, with $83.8 million drawn on its operating loans and facilities, and an additional $84.5 million reserved for several standby letters of credit. At the end of the quarter, the Company had available, undrawn operating loan facilities of $1,145.8 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 31, 2027. On June 28, 2024, any amounts drawn on the committed revolving credit facility will be converted to US-dollar denominated floating rate term debt, with a maturity date of June 28, 2029.

As at September 30, 2023, Canfor, excluding Vida and CPPI, had available operating loan facilities totaling $1,047.8 million, with $71.5 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans, leaving $976.3 million available and undrawn on its operating loan facilities at the end of the period.

Operating Loans – Vida

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 2.8% to 6.8%. Vida also has separate overdraft facilities with fixed interest rates ranging from 5.5% to 6.8%. Vida's operating loan facilities have certain financial covenants including minimum equity and interest coverage ratios.

At September 30, 2023, Vida had $2.7 million drawn on its $106.3 million operating loan facilities, leaving $103.6 million available and undrawn at the end of the quarter.

Operating Loans – CPPI

At September 30, 2023, CPPI had a $160.0 million unsecured operating loan facility, with $81.1 million drawn and $13.0 million reserved for several standby letters of credit, leaving $65.9 million available and undrawn on its operating loan facility at the end of the quarter.

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

Term Debt

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

CPPI's $80.0 million non-revolving term debt, which is restricted for use on the continued re-investment in CPPI's facilities, specifically Northwood's RB1, has a maturity date of May 2, 2027, with interest payable at floating interest rates consistent with its operating loan facility. As at September 30, 2023, this non-revolving term debt remains undrawn.

Net Cash and Liquidity

At September 30, 2023, on a consolidated basis, including CPPI and Vida, the Company had total net cash of $545.4 million, down $46.6 million from the end of the previous quarter. Available liquidity of $2,063.5 million (of which $80.0 million relates to CPPI's non-revolving term debt which is restricted for use on the continued re-investment in its facilities, specifically Northwood's RB1), decreased by $39.8 million from the previous quarter.

The Company's consolidated net cash to total capitalization at the end the third quarter of 2023 was 14.2%. For Canfor, excluding CPPI, net cash to capitalization at the end of the third quarter of 2023 was 18.9%.

Debt Covenants

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

Normal Course Issuer Bid

During the third quarter of 2023, the Company purchased 652,600 common shares for $12.5 million (an average of $19.15 per common share), of which $11.8 million was paid during the quarter. An additional $0.4 million was paid during the period in relation to shares purchased in the prior quarter.

Shares Outstanding

As at September 30, 2023, and November 2, 2023, there were 119,459,279 common shares of the Company outstanding, and Canfor's ownership interest in CPPI and Vida was at 54.8% and 70.0%, respectively.

Countervailing and Anti-Dumping Duties

On January 1, 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 Department of Commerce ("DOC"). As a result, CVD was expensed at a rate of 0.95% from January to July 2023 and 1.36% thereafter, while ADD was expensed at an estimated accrual rate of 20.00%, unchanged from the prior quarter.

Also in January 2023, the DOC announced the preliminary results for the POR4, which is based on sales and cost data in 2021, and in July 2023, finalized the rates. The Company's final CVD and ADD rates were determined to be 1.36% and 5.25%, respectively. In July 2023, upon finalization of these POR4 rates, a recovery of $43.3 million (US$34.7 million), was recognized in the Company's 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 combined DOC rate for POR4 of 6.61%.

Also in July 2023, the Company's combined cash deposit rate of 5.87% was reset to the final rate of 6.61% as determined in POR4. 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.

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

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

OUTLOOK

Lumber

Looking ahead, although longer-term lumber market fundamentals remain positive, affordability constraints are anticipated to continue to weigh on demand in the near to mid-term. High mortgage rates, persistent inflation and geopolitical tensions are forecast to exert pressure on new home construction activity through the balance of the year and into 2024. On the positive side, persistent underlying demand for housing in North America, coupled with low supply of existing home inventories, are projected to support the housing sector in the long-term. In the repair and remodeling segment, demand is anticipated to be muted through the fourth quarter of 2023 due to affordability constraints combined with seasonal factors.

Offshore lumber demand in Japan is projected to remain somewhat muted through the balance of 2023, reflecting general economic uncertainty and a slowed housing market. The same demand trend is anticipated for China, despite the introduction of government stimulus measures mid-year. Pricing to China, however, is estimated to improve slightly in the coming months, due to reduced European imports and a continued draw-down of inventories in that region.

European lumber pricing is forecast to face downward pressure through the fourth quarter of 2023 driven mainly by low levels of residential construction activity, moderated to a degree, by continued strength in the do-it-yourself space.

Looking forward from an operational perspective, there remains significant uncertainty with regards to the availability of economically viable fibre in BC. This uncertainty is driven by recent wildfire events, combined with the lasting impacts of the Mountain Pine Beetle epidemic, uncertainties associated with unsettled land and title claims by various Indigenous Nations and outstanding policy, land use decisions and legislative initiatives by the BC Government. While the Company has taken a number of actions in recent years in response to these fibre constraints, the near-term outlook in BC remains challenging. As a result, the Company continues to anticipate sustained log cost pressures in BC for its sawmills and a challenging fibre supply environment for CPPI's pulp mills (both for sawmill residual chips and whole-log chips). With these continued log cost pressures and the projected weaker North American lumber market demand and pricing, the Company will continue to adjust operating rates to align with demand and economically available timber supply.

Pulp and Paper

Looking forward, global softwood pulp markets are anticipated to experience a slight improvement in the fourth quarter of 2023, as elevated inventory levels slowly begin to normalize following the seasonally slower summer months. These factors are projected to be tempered by general global economic uncertainty and pressures.

CPPI's results in the fourth quarter of 2023 will reflect the aforementioned operational challenges at Northwood associated with the delayed startup, with a projected 30,000 tonnes of reduced NBSK pulp production, combined with higher associated maintenance costs and lower shipment volumes. These factors are also anticipated to give rise to a larger-than-normal unfavourable timing lag in shipments (vs orders) and thus it is estimated that fourth quarter results will reflect persistently lower NBSK pulp sales unit realizations, regardless of any uptick in US-dollar NBSK list prices that may arise.

While no major maintenance outages are planned at CPPI's operations in the fourth quarter of 2023, given the ongoing uncertainty with regards to the availability of economically viable fibre in BC, and a projected weaker North American lumber market, CPPI anticipates a challenging fibre supply environment for its pulp mills (both for sawmill residual chips and whole-log chips). CPPI will continue to monitor operating conditions and will adjust operating rates, to align with economically viable fibre supply, through the balance of 2023 and into 2024.

Bleached kraft paper markets are anticipated to continue to soften through the balance of 2023, particularly in North America, as tepid demand is combined with above-average paper inventory levels.

CRITICAL ACCOUNTING ESTIMATES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

RISKS AND UNCERTAINTIES

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 1,312.3**	$ 1,446.0	$ 1,385.4	$ 1,373.3	$ 1,666.4	$ 2,173.1	$ 2,213.9	$ 1,571.3
Operating income (loss) before amortization, asset write-downs and impairments[22]	**$ 42.6**	$ 41.0	$ (105.7)	$ (62.6)	$ 211.5	$ 630.3	$ 830.7	$ 321.7
Operating income (loss)	**$ (65.1)**	$ (66.7)	$ (208.5)	$ (308.0)	$ 108.6	$ 531.6	$ 741.9	$ (66.8)
Net income (loss)	**$ (34.7)**	$ (48.6)	$ (143.6)	$ (231.4)	$ 106.5	$ 415.5	$ 570.5	$ (35.5)
Shareholder net income (loss)	**$ (23.1)**	$ (43.9)	$ (142.0)	$ (207.9)	$ 87.4	$ 373.8	$ 534.0	$ (23.1)
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ (0.19)**	$ (0.36)	$ (1.17)	$ (1.70)	$ 0.71	$ 3.02	$ 4.29	$ (0.19)
Book value[23]	**$ 32.89**	$ 32.63	$ 33.76	$ 34.87	$ 36.14	$ 34.77	$ 31.96	$ 27.99
Statistics								
Lumber shipments (MMfbm)[24]	**1,288**	1,406	1,340	1,239	1,311	1,528	1,407	1,320
Pulp shipments (000 mt)	**142**	179	152	170	199	205	176	216
Average exchange rate – US$/Cdn$	**$ 0.746**	$ 0.745	$ 0.740	$ 0.736	$ 0.766	$ 0.783	$ 0.790	$ 0.794
Average exchange rate – SEK/Cdn$	**8.056**	7.833	7.726	7.891	8.082	7.708	7.367	7.026
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 419**	$ 358	$ 386	$ 410	$ 580	$ 866	$ 1,274	$ 711
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 452**	$ 486	$ 485	$ 451	$ 722	$ 769	$ 1,372	$ 862
Average SYP (East) 2x6 #2 lumber price (US$)	**$ 404**	$ 385	$ 420	$ 449	$ 459	$ 556	$ 1,102	$ 538
Average NBSK pulp list price delivered to China (US$)	**$ 680**	$ 668	$ 891	$ 920	$ 969	$ 1,008	$ 899	$ 723

[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)	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Shareholder net income (loss), as reported	**$ (23.1)**	$ (43.9)	$ (142.0)	$ (207.9)	$ 87.4	$ 373.8	$ 534.0	$ (23.1)
Foreign exchange (gain) loss on term debt	**$ 6.4**	$ (6.7)	$ (0.4)	$ (1.7)	$ 10.6	$ 4.9	$ (3.0)	$ 0.2
(Gain) loss on derivative financial instruments	**$ (2.7)**	$ 6.3	$ (2.5)	$ (2.0)	$ 0.5	$ 1.0	$ (2.0)	$ 3.0
Asset write-downs and impairments	**$ -**	$ -	$ -	$ 84.8	$ -	$ -	$ -	$ 182.9
Net impact of above items	**$ 3.7**	$ (0.4)	$ (2.9)	$ 81.1	$ 11.1	$ 5.9	$ (5.0)	$ 186.1
Adjusted shareholder net income (loss)[25]	**$ (19.4)**	$ (44.3)	$ (144.9)	$ (126.8)	$ 98.5	$ 379.7	$ 529.0	$ 163.0
Shareholder net income (loss) per share (EPS), as reported	**$ (0.19)**	$ (0.36)	$ (1.17)	$ (1.70)	$ 0.71	$ 3.02	$ 4.29	$ (0.19)
Net impact of above items per share	**$ 0.03**	$ -	$ (0.03)	$ 0.66	$ 0.09	$ 0.05	$ (0.04)	$ 1.50
Adjusted net income (loss) per share[25]	**$ (0.16)**	$ (0.36)	$ (1.20)	$ (1.04)	$ 0.80	$ 3.07	$ 4.25	$ 1.31

[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)	Q3 2023	Q2 2023	YTD 2023	Q3 2022	YTD 2022
Operating income (loss)	**$ (65.1)**	$ (66.7)	**$ (340.3)**	$ 108.6	$ 1,382.1
Inventory write-down (recovery), net	**$ (20.8)**	$ (57.4)	**$ (16.1)**	$ 88.5	$ 87.9
Adjusted operating income (loss)	**$ (85.9)**	$ (124.1)	**$ (356.4)**	$ 197.1	$ 1,470.0
Amortization	**$ 107.7**	$ 107.7	**$ 318.2**	$ 102.9	$ 290.4
Adjusted operating income (loss) before amortization	**$ 21.8**	$ (16.4)	**$ (38.2)**	$ 300.0	$ 1,760.4

(millions of Canadian dollars)	Q3 2023	Q2 2023	YTD 2023	Q3 2022	YTD 2022
Operating income (loss)	**$ (65.1)**	$ (66.7)	**$ (340.3)**	$ 108.6	$ 1,382.1
Realized (gain) loss on derivative financial instruments	**$ (0.6)**	$ 3.2	**$ 1.4**	$ (4.5)	$ (0.5)
Other income, net	**$ 3.9**	$ 6.7	**$ 15.3**	$ 16.8	$ 37.3
Less: non-controlling interests	**$ 16.2**	$ (3.6)	**$ 16.9**	$ (29.5)	$ (148.2)
Return	**$ (45.6)**	$ (60.4)	**$ (306.7)**	$ 91.4	$ 1,270.7
Average invested capital[26]	**$ 4,144.6**	$ 4,160.9	**$ 4,153.6**	$ 3,887.6	$ 3,729.3
Return on invested capital (ROIC)	**(1.1)%**	(1.5)%	**(7.4)%**	2.4%	34.1%

[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 September 30, 2023	As at December 31, 2022	As at September 30, 2022
Term debt	**$ 208.5**	$ 258.9	$ 261.5
Operating loans	**$ 83.8**	$ 27.8	$ 32.1
Less: cash and cash equivalents	**$ 837.7**	$ 1,268.7	$ 1,601.5
Net cash	**$ (545.4)**	$ (982.0)	(1,307.9)
Total equity	**$ 4,391.5**	$ 4,762.8	$ 4,993.8
Total capitalization	**$ 3,846.1**	$ 3,780.8	$ 3,685.9
Net cash to total capitalization	**(14.2)%**	(26.0)%	(35.5)%

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)	**As at September 30, 2023**	As at December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	**$ 837.7**	$ 1,268.7
Trade receivables	**356.4**	336.0
Other receivables	**89.8**	87.3
Income taxes recoverable	**84.6**	54.2
Inventories (Note 3)	**916.7**	1,180.7
Prepaid expenses and other	**159.6**	138.0
Total current assets	**2,444.8**	3,064.9
Property, plant and equipment	**2,359.8**	2,219.1
Right-of-use assets	**119.8**	99.1
Timber licenses	**349.5**	357.8
Goodwill and other intangible assets	**517.0**	532.1
Long-term investments and other (Notes 4 and 7)	**537.1**	466.2
Total assets	**$ 6,328.0**	$ 6,739.2
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**$ 716.3**	$ 678.7
Operating loans (Note 5(a))	**83.8**	27.8
Current portion of deferred reforestation obligations	**50.2**	60.4
Current portion of term debt (Note 5(b))	**45.2**	45.3
Current portion of lease obligations	**29.7**	26.2
Income taxes payable	**2.1**	45.2
Total current liabilities	**927.3**	883.6
Term debt (Note 5(b))	**163.3**	213.6
Retirement benefit obligations (Note 6)	**137.5**	158.3
Lease obligations	**96.4**	79.5
Deferred reforestation obligations	**36.5**	43.8
Other long-term liabilities	**43.3**	32.0
Put liability (Note 7)	**176.7**	172.7
Deferred income taxes, net	**355.5**	392.9
Total liabilities	**$ 1,936.5**	$ 1,976.4
EQUITY		
Share capital	**$ 942.4**	$ 955.1
Contributed surplus and other equity	**(169.8)**	(157.7)
Retained earnings	**3,121.5**	3,341.5
Accumulated other comprehensive income	**34.7**	82.6
Total equity attributable to equity shareholders of the Company	**3,928.8**	4,221.5
Non-controlling interests	**462.7**	541.3
Total equity	**$ 4,391.5**	$ 4,762.8
Total liabilities and equity	**$ 6,328.0**	$ 6,739.2

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, The Hon. J.R. Baird

Canfor Corporation
Condensed Consolidated Statements of Income (Loss)

(millions of Canadian dollars, except per share data, unaudited)	3 months ended September 30, **2023**	3 months ended September 30, 2022	9 months ended September 30, **2023**	9 months ended September 30, 2022
Sales	**$ 1,312.3**	$ 1,666.4	**$ 4,143.7**	$ 6,053.4
Costs and expenses				
Manufacturing and product costs	**1,075.7**	1,293.7	**3,452.0**	3,651.3
Freight and other distribution costs	**163.2**	195.9	**521.4**	609.4
Countervailing and anti-dumping duty expense (recovery), net (Note 12)	**(11.3)**	(77.0)	**51.5**	(5.9)
Amortization	**107.7**	102.9	**318.2**	290.4
Selling and administration costs	**41.0**	40.9	**125.5**	123.0
Restructuring costs	**1.1**	1.4	**15.4**	3.1
	1,377.4	1,557.8	**4,484.0**	4,671.3
Operating income (loss)	**(65.1)**	108.6	**(340.3)**	1,382.1
Finance income (expense), net	**5.6**	4.8	**7.7**	(2.8)
Foreign exchange gain (loss) on term debt	**(7.4)**	(12.4)	**0.8**	(14.5)
Foreign exchange gain on duties recoverable, net	**11.2**	21.7	**4.0**	26.3
Gain (loss) on derivative financial instruments (Note 7)	**4.9**	(1.0)	**(2.2)**	(0.8)
Other income, net	**3.9**	16.8	**15.3**	37.3
Net income (loss) before income taxes	**(46.9)**	138.5	**(314.7)**	1,427.6
Income tax recovery (expense) (Note 8)	**12.2**	(32.0)	**87.8**	(335.1)
Net income (loss)	**$ (34.7)**	$ 106.5	**$ (226.9)**	$ 1,092.5
Net income (loss) attributable to:				
Equity shareholders of the Company	**$ (23.1)**	$ 87.4	**$ (209.0)**	$ 995.2
Non-controlling interests	**(11.6)**	19.1	**(17.9)**	97.3
Net income (loss)	**$ (34.7)**	$ 106.5	**$ (226.9)**	$ 1,092.5
Net income (loss) per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 9)	**$ (0.19)**	$ 0.71	**$ (1.74)**	$ 8.05

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

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

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2023**	2022	9 months ended September 30, **2023**	2022
Net income (loss)	**$ (34.7)**	$ 106.5	**$ (226.9)**	$ 1,092.5
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to net income (loss):				
Defined benefit plan actuarial gains (losses), net (Note 6)	**(3.3)**	(10.0)	**14.9**	42.6
Income tax recovery (expense) on defined benefit plan actuarial gains (losses), net (Note 8)	**0.8**	2.7	**(4.0)**	(11.5)
	(2.5)	(7.3)	**10.9**	31.1
Items that may be reclassified subsequently to net income (loss):				
Foreign exchange translation of foreign operations, net of tax	**50.5**	84.5	**(47.9)**	(3.9)
Other comprehensive income (loss), net of tax	**48.0**	77.2	**(37.0)**	27.2
Total comprehensive income (loss)	**$ 13.3**	$ 183.7	**$ (263.9)**	$ 1,119.7
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	**$ 25.1**	$ 165.5	**$ (247.6)**	$ 1,016.4
Non-controlling interests	**(11.8)**	18.2	**(16.3)**	103.3
Total comprehensive income (loss)	**$ 13.3**	$ 183.7	**$ (263.9)**	$ 1,119.7

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

Canfor Corporation
Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2023**	3 months ended September 30, 2022	9 months ended September 30, **2023**	9 months ended September 30, 2022
Share capital				
Balance at beginning of period	**$ 947.6**	$ 966.6	**$ 955.1**	$ 982.2
Share purchases (Note 9)	**(5.2)**	-	**(12.7)**	(15.6)
Balance at end of period	**$ 942.4**	$ 966.6	**$ 942.4**	$ 966.6
Contributed surplus and other equity				
Balance at beginning of period	**$ (166.8)**	$ (156.8)	**$ (157.7)**	$ (130.9)
Put liability (Note 7)	**(3.0)**	2.3	**(12.1)**	(23.6)
Balance at end of period	**$ (169.8)**	$ (154.5)	**$ (169.8)**	$ (154.5)
Retained earnings				
Balance at beginning of period	**$ 3,154.2**	$ 3,493.1	**$ 3,341.5**	$ 2,586.8
Net income (loss) attributable to equity shareholders of the Company	**(23.1)**	87.4	**(209.0)**	995.2
Defined benefit plan actuarial gains (losses), net of tax	**(2.3)**	(6.4)	**9.3**	25.1
Share purchases (Note 9)	**(7.3)**	-	**(20.3)**	(33.0)
Balance at end of period	**$ 3,121.5**	$ 3,574.1	**$ 3,121.5**	$ 3,574.1
Accumulated other comprehensive income (loss)				
Balance at beginning of period	**$ (15.8)**	$ (42.5)	**$ 82.6**	$ 45.9
Foreign exchange translation of foreign operations, net of tax	**50.5**	84.5	**(47.9)**	(3.9)
Balance at end of period	**$ 34.7**	$ 42.0	**$ 34.7**	$ 42.0
Total equity attributable to equity shareholders of the Company	**$ 3,928.8**	$ 4,428.2	**$ 3,928.8**	$ 4,428.2
Non-controlling interests				
Balance at beginning of period	**$ 474.9**	$ 549.1	**$ 541.3**	$ 525.1
Net income (loss) attributable to non-controlling interests	**(11.6)**	19.1	**(17.9)**	97.3
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of tax	**(0.2)**	(0.9)	**1.6**	6.0
Distributions to non-controlling interests	**(0.4)**	(1.7)	**(62.3)**	(62.8)
Balance at end of period	**$ 462.7**	$ 565.6	**$ 462.7**	$ 565.6
Total equity	**$ 4,391.5**	$ 4,993.8	**$ 4,391.5**	$ 4,993.8

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2023**	2022	9 months ended September 30, **2023**	2022
Cash generated from (used in):				
Operating activities				
Net income (loss)	**$ (34.7)**	$ 106.5	**$ (226.9)**	$ 1,092.5
Items not affecting cash:				
Amortization	**107.7**	102.9	**318.2**	290.4
Income tax (recovery) expense	**(12.2)**	32.0	**(87.8)**	335.1
Change in long-term portion of deferred reforestation obligations, net	**(16.0)**	(31.5)	**(8.6)**	(29.0)
Foreign exchange (gain) loss on term debt	**7.4**	12.4	**(0.8)**	14.5
Foreign exchange gain on duties recoverable, net	**(11.2)**	(21.7)	**(4.0)**	(26.3)
Duties paid (greater) less than accruals (Note 12)	**(22.8)**	(105.6)	**19.2**	(201.6)
Changes in mark-to-market value of derivative financial instruments	**(4.3)**	5.5	**0.8**	1.3
Employee future benefits expense	**1.2**	2.1	**10.1**	6.4
Finance (income) expense, net	**(5.6)**	(4.8)	**(7.7)**	2.8
Restructuring costs	**1.1**	1.4	**15.4**	3.1
Other, net	**4.3**	2.9	**9.4**	1.0
Defined benefit plan contributions, net	**(2.9)**	(3.0)	**(21.7)**	(9.8)
Income taxes received (paid), net	**41.8**	(98.9)	**(33.3)**	(419.9)
	53.8	0.2	**(17.7)**	1,060.5
Net change in non-cash working capital (Note 10)	**151.8**	184.2	**180.8**	105.3
	205.6	184.4	**163.1**	1,165.8
Financing activities				
Operating loan drawings, net (Note 5 (a))	**19.3**	15.8	**56.7**	16.0
Repayments and conversion of term debt, net	**(0.1)**	(0.1)	**(50.1)**	(0.3)
Payments of lease obligations	**(8.4)**	(6.4)	**(23.9)**	(18.8)
Finance expenses paid	**(6.7)**	(4.4)	**(23.1)**	(14.2)
Share purchases (Note 9)	**(12.2)**	(2.4)	**(34.8)**	(48.6)
Cash distributions paid to non-controlling interests	**(0.4)**	(1.7)	**(62.3)**	(62.8)
	(8.5)	0.8	**(137.5)**	(128.7)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(192.9)**	(138.8)	**(414.9)**	(347.5)
Acquisition of Millar Western	**-**	-	**-**	(434.0)
Interest income received	**7.2**	3.7	**23.2**	5.4
Purchase of long-term investments (Notes 4 and 7)	**(48.0)**	-	**(48.0)**	-
Other, net	**1.2**	(16.3)	**9.2**	(15.5)
	(232.5)	(151.4)	**(430.5)**	(791.6)
Foreign exchange gain (loss) on cash and cash equivalents	**12.4**	34.0	**(26.1)**	1.2
Increase (decrease) in cash and cash equivalents*	**(23.0)**	67.8	**(431.0)**	246.7
Cash and cash equivalents at beginning of period*	**860.7**	1,533.7	**1,268.7**	1,354.8
Cash and cash equivalents at end of period*	**$ 837.7**	$ 1,601.5	**$ 837.7**	$ 1,601.5

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

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Corporation and its subsidiaries, hereinafter referred to as "Canfor" or "the Company." Significant subsidiaries include Canfor Southern Pine, Inc. ("CSP") and entities related to the acquisition of Millar Western Forest Products Ltd. ("Millar Western"), which are wholly owned, as well as Canfor Pulp Products Inc. ("CPPI") and the Vida Group ("Vida"), of which Canfor owned 54.8% and 70.0%, respectively, at September 30, 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 November 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 September 30, 2023**	As at December 31, 2022
Logs	**$ 166.6**	$ 305.3
Finished products	**559.1**	693.5
Residual fibre	**30.7**	27.0
Materials and supplies	**160.3**	154.9
	$ 916.7	$ 1,180.7

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended September 30, 2023, an $18.8 million net reversal of a previously recognized inventory write-down was recorded for the lumber segment (nine months ended September 30, 2023 – $24.6 million net recovery). For the three and nine months ended September 30, 2022, an $89.6 million inventory write-down expense was recognized for the lumber segment. At September 30, 2023, an inventory provision of $71.1 million has been recognized for logs and lumber (December 31, 2022 – provision of $95.7 million).

For the three months ended September 30, 2023, a $2.0 million net reversal of a previously recognized inventory write-down was recorded for the pulp and paper segment (nine months ended September 30, 2023 – $8.5 million net write-down expense). For the three months ended September 30, 2022 a $1.1 million reversal of a previously recognized inventory write-down was recorded for the pulp and paper segment (nine months ended September 30, 2022 – $1.7 million inventory write-down recovery). At September 30, 2023, an inventory provision of $10.9 million has been recognized for finished pulp, wood chips and logs (December 31, 2022 – provision of $2.4 million related to logs).

4. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)	As at September 30, 2023	As at December 31, 2022
Duty deposits recoverable, net (Note 12)	**$ 374.8**	$ 372.9
Other deposits, loans, advances and long-term assets	**58.9**	49.3
Other investments (Note 7)	**81.2**	33.4
Retirement benefit surplus	**9.7**	9.6
Deferred income taxes, net	**12.5**	1.0
	$ 537.1	$ 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 September 30, 2023, including interest receivable of $59.2 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 September 30, 2023	As at December 31, 2022
Canfor (excluding Vida and CPPI)		
Available operating loans:		
Operating loan facility	**$ 775.0**	$ 775.0
Revolving credit facility (US$150.0 million)	**202.8**	203.2
Facilities for letters of credit	**70.0**	70.0
Total operating loan facilities	**1,047.8**	1,048.2
Letters of credit covered under operating loan facility	**(2.7)**	(2.7)
Letters of credit covered under facilities for letters of credit	**(68.8)**	(66.3)
Total available operating loan facilities - Canfor	**$ 976.3**	$ 979.2
Vida		
Available operating loans:		
Operating loan facilities	**$ 63.5**	$ 66.4
Overdraft facilities	**42.8**	43.8
Total operating loan facilities	**106.3**	110.2
Operating loan facilities drawn	**(2.7)**	(12.8)
Total available operating loan facilities - Vida	**$ 103.6**	$ 97.4
CPPI		
Available operating loans:		
Operating loan facility	**$ 160.0**	$ 110.0
Letters of credit	**(13.0)**	(12.9)
Operating loan facility drawn	**(81.1)**	(15.0)
Total available operating loan facility - CPPI	**$ 65.9**	$ 82.1
Consolidated:		
Total operating loan facilities	**$ 1,314.1**	$ 1,268.4
Total operating loan facilities drawn	**$ (83.8)**	$ (27.8)
Total letters of credit	**$ (84.5)**	$ (81.9)
Total available operating loan facilities	**$ 1,145.8**	$ 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 31, 2027 and CPPI's operating loan facility is repayable on May 2, 2027. On June 28, 2024, any amounts drawn on Canfor's committed revolving credit facility will be converted to US-dollar denominated floating rate term debt, with a maturity date of June 28, 2029.

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 2.8% to 6.8%. Vida also has separate overdraft facilities with fixed interest rates ranging from 5.5% to 6.8%.

Canfor and CPPI's operating loan facilities have certain financial covenants, including maximum debt to total capitalization ratios. Vida is also subject to certain financial covenants, including minimum equity and interest coverage ratios. As at September 30, 2023, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their operating loan facilities. Substantially all borrowings of Vida and CPPI are non-recourse to other entities within the Company.

(b) Term Debt

(millions of Canadian dollars, unaudited)		**As at September 30, 2023**		As at December 31, 2022
Canfor (excluding Vida and CPPI)				
US$50.0 million, floating interest, repayable on June 28, 2031	**$**	**67.6**	$	67.7
US$100.0 million, fixed interest of 4.4%, repayable in three equal tranches on October 2, 2023, 2024 and 2025		**135.1**		135.4
Other		**5.2**		5.2
Vida				
SEK 1.2 million, floating interest, repaid on April 30, 2023		**-**		0.1
SEK 1.1 million, floating interest, repayable November 30, 2024		**0.1**		0.1
AUD$3.7 million, floating interest, repayable between April 23, 2024 and May 31, 2028		**0.5**		0.4
CPPI				
CAD$50.0 million, floating interest, converted to an operating loan facility on May 2, 2023		**-**		50.0
Up to CAD$80.0 million, floating interest, repayable on May 2, 2027				
Term debt at end of period	**$**	**208.5**	$	258.9
Less: Current portion		**(45.2)**		(45.3)
Long-term portion	**$**	**163.3**	$	213.6

CPPI's $80.0 million non-revolving term debt is restricted for use on the continued re-investment in CPPI's facilities, specifically Northwood Northern Bleached Softwood Kraft pulp mill's ("Northwood") recovery boiler number one ("RB1").

Canfor's and CPPI's term debt (excluding Vida) is unsecured. Vida's term debt is secured by its property, plant and equipment. Canfor's and CPPI's borrowings (excluding Vida) are subject to certain financial covenants, including a maximum debt to total capitalization ratio. Vida's borrowings are subject to certain financial covenants, including minimum equity and interest coverage ratios. As at September 30, 2023, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their term debt.

Fair value of total term debt

At September 30, 2023, the fair value of the Company's term debt is $195.7 million (December 31, 2022 – $241.7 million), determined based on prevailing market rates for term debt with similar characteristics and risk profile.

6. Employee Future Benefits

For the three months ended September 30, 2023, actuarial losses of $3.3 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), as a 0.3% increase in the discount rate used to value the net defined benefit obligations was more than offset by lower than anticipated returns on plan assets. For the nine months ended September 30, 2023, actuarial gains of $14.9 million (before tax) were recognized in other comprehensive income (loss).

For the three months ended September 30, 2022, actuarial losses of $10.0 million (before tax) were recognized in other comprehensive income (loss), reflecting a 0.2% decrease in the discount rate used to value the net defined benefit obligations, offset in part by higher than anticipated returns on plan assets. For the nine months ended September 30, 2022, actuarial gains of $42.6 million (before tax) were recognized in other comprehensive income (loss).

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

	Defined Benefit Pension Plans	Other Benefit Plans
September 30, 2023	**5.2%**	**5.2%**
June 30, 2023	4.9%	4.9%
December 31, 2022	4.8%	4.8%
September 30, 2022	4.8%	4.8%
June 30, 2022	5.0%	5.0%
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 September 30, 2023 and December 31, 2022, and shows the level within the fair value hierarchy in which the financial instruments have been classified:

(millions of Canadian dollars, unaudited)	Fair Value Hierarchy Level		**As at September 30, 2023**		As at December 31, 2022
Financial assets measured at fair value					
Investments	Level 1	**$**	**79.4**	$	31.7
Derivative financial instruments	Level 2		**1.5**		2.0
Duty deposits recoverable, net (Note 4)	Level 3		**374.8**		372.9
		$	**455.7**	$	406.6
Financial liabilities measured at fair value					
Derivative financial instruments	Level 2	**$**	**0.4**	$	-
Put liability	Level 3		**176.7**		172.7
		$	**177.1**	$	172.7

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

	3 months ended September 30,				9 months ended September 30,			
(millions of Canadian dollars, unaudited)		**2023**		2022		**2023**		2022
Lumber futures	**$**	**-**	$	0.1	**$**	**0.7**	$	4.7
Foreign exchange forward contracts		**4.9**		(1.1)		**(2.9)**		(5.5)
Gain (loss) on derivative financial instruments	**$**	**4.9**	$	(1.0)	**$**	**(2.2)**	$	(0.8)

During the three and nine months ended September 30, 2023, the Company purchased investments in certain funds at a cost of $48.0 million. These highly liquid investments, with maturities exceeding one year, were subsequently measured at fair value through net income (loss) and classified as level 1.

During the three and nine months ended September 30, 2023, losses of $3.0 million and $12.1 million, respectively, were recognized in 'Other Equity' on the Company's condensed consolidated balance sheet following remeasurement of the put liability, primarily reflecting the passage of time (three and nine months ended September 30, 2022 – a gain of $2.3 million and a loss of $23.6 million, respectively). As a result of this remeasurement, combined with net foreign exchange losses of $1.8 million and gains of $8.1 million for the three and nine months ended September 30, 2023, respectively (three and nine months ended September 30, 2022 gains of $4.7 million and $20.5 million, respectively), the balance of the put liability was $176.7 million at September 30, 2023 (December 31, 2022 – $172.7 million).

8. Income Taxes

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

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2023	2022	9 months ended September 30, 2023	2022
Current	**$ 2.9**	$ 27.1	**$ 40.3**	$ (235.1)
Deferred	**9.3**	(59.1)	**47.5**	(100.0)
Income tax expense (recovery)	**$ 12.2**	$ (32.0)	**$ 87.8**	$ (335.1)

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

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2023	2022	9 months ended September 30, 2023	2022
Income tax recovery (expense) at statutory rate of 27.0% (2022 – 27.0%)	**$ 12.7**	$ (37.4)	**$ 85.0**	$ (385.5)
Add (deduct):				
Non-taxable income (expense) related to non-controlling interests	**(0.2)**	-	**(0.5)**	0.5
Entities with different income tax rates and other tax adjustments	**1.0**	7.2	**4.1**	52.1
Permanent difference from capital gains and losses and other non-deductible items	**(1.3)**	(1.8)	**(0.8)**	(2.2)
Income tax recovery (expense)	**$ 12.2**	$ (32.0)	**$ 87.8**	$ (335.1)

In addition to the amounts recorded to net income (loss), a tax recovery of $0.8 million was recorded to other comprehensive income (loss) in relation to actuarial losses, net, on the defined benefit plans for the three months ended September 30, 2023 (three months ended September 30, 2022 – tax recovery of $2.7 million). For the nine months ended September 30, 2023, a tax expense of $4.0 million was recorded to other comprehensive income (loss) in relation to actuarial gains, net, on the defined benefit plans (nine months ended September 30, 2022 – expense of $11.5 million).

9. Earnings (Loss) Per Common Share

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

	3 months ended September 30, 2023	2022	9 months ended September 30, 2023	2022
Weighted average number of common shares	**119,904,798**	122,519,400	**120,458,826**	123,567,934

During the three months ended September 30, 2023, the Company purchased 652,600 common shares for $12.5 million (an average of $19.15 per common share), of which $11.8 million was paid during the quarter. An additional $0.4 million was paid during the three months ended September 30, 2023, in relation to shares purchased in the prior quarter. During the nine months ended September 30, 2023, the Company purchased 1,600,300 common shares for $33.0 million (an average of $20.62 per common share), of which $32.3 million was paid during the period. An additional $2.5 million was paid during the nine months ended September 30, 2023, in relation to shares purchased in prior periods.

As at September 30, 2023 and November 2, 2023, based on the trade date, there were 119,459,279 common shares of the Company outstanding and Canfor's ownership interest in CPPI and Vida was 54.8% and 70.0%, respectively.

10. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2023	2022	9 months ended September 30, 2023	2022
Accounts receivable	**$ 37.1**	$ 99.1	**$ (44.5)**	$ (1.5)
Inventories	**81.5**	77.9	**246.3**	106.5
Prepaid expenses and other	**36.4**	(1.9)	**(27.9)**	(14.7)
Accounts payable and accrued liabilities and current portion of deferred reforestation obligations	**(3.2)**	9.1	**6.9**	15.0
Net change in non-cash working capital	**$ 151.8**	$ 184.2	**$ 180.8**	$ 105.3

11. Segment Information

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

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

(millions of Canadian dollars, unaudited)	Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment	Consolidated
3 months ended September 30, 2023					
Sales from contracts with customers	**$ 1,123.5**	**$ 188.8**	**$ -**	**$ -**	**$ 1,312.3**
Sales to other segments	**33.5**	**-**	**-**	**(33.5)**	**-**
Operating loss	**(1.3)**	**(49.3)**	**(14.5)**	**-**	**(65.1)**
Amortization	**85.4**	**21.6**	**0.7**	**-**	**107.7**
Capital expenditures[1]	**171.3**	**16.6**	**5.0**	**-**	**192.9**
3 months ended September 30, 2022					
Sales from contracts with customers	$ 1,358.1	$ 308.3	$ -	$ -	$ 1,666.4
Sales to other segments	35.7	-	-	(35.7)	-
Operating income (loss)	101.6	19.2	(12.2)	-	108.6
Amortization	75.0	27.5	0.4	-	102.9
Capital expenditures[1]	109.4	28.5	0.9	-	138.8
9 months ended September 30, 2023					
Sales from contracts with customers	**$ 3,462.1**	**$ 681.6**	**$ -**	**$ -**	**$ 4,143.7**
Sales to other segments	**116.6**	**-**	**-**	**(116.6)**	**-**
Operating loss	**(186.5)**	**(112.4)**	**(41.4)**	**-**	**(340.3)**
Amortization	**247.4**	**68.8**	**2.0**	**-**	**318.2**
Capital expenditures[1,2]	**363.0**	**38.9**	**13.0**	**-**	**414.9**
Total assets	**4,217.4**	**648.3**	**1,462.3**	**-**	**6,328.0**
9 months ended September 30, 2022					
Sales from contracts with customers	$ 5,236.1	$ 817.3	$ -	$ -	$ 6,053.4
Sales to other segments	108.2	0.2	-	(108.4)	-
Operating income (loss)	1,436.7	(14.9)	(39.7)	-	1,382.1
Amortization	217.8	71.4	1.2	-	290.4
Capital expenditures[1]	260.1	84.6	2.8	-	347.5
Total assets	4,140.6	855.2	2,108.1	-	7,103.9

[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.

	3 months ended September 30,				9 months ended September 30,			
(millions of Canadian dollars, unaudited)		**2023**		2022		**2023**		2022
Sales by location of customer								
Canada	**13%**	**$ 173.3**	12%	$ 194.5	**11%**	**$ 469.2**	10%	$ 643.2
United States	**55%**	**712.9**	52%	864.9	**53%**	**2,151.1**	56%	3,371.6
Europe	**17%**	**227.6**	16%	271.0	**19%**	**802.9**	17%	1,019.9
Asia	**13%**	**169.8**	18%	304.3	**15%**	**619.4**	15%	894.9
Other	**2%**	**28.7**	2%	31.7	**2%**	**101.1**	2%	123.8
	100%	**$ 1,312.3**	100%	$ 1,666.4	**100%**	**$ 4,143.7**	100%	$ 6,053.4

12. Countervailing and Anti-Dumping Duties

In 2016, a petition was filed by the US Lumber Coalition to the US Department of Commerce ("DOC") and the US International Trade Commission ("ITC") alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers. Canfor was selected by the DOC as a "mandatory respondent" to the countervailing and anti-dumping investigations and is subject to company specific CVD and ADD rates. As a result of the DOC's investigation, CVD and ADD were imposed on the Company's Canadian lumber exports to the United States beginning in 2017. As at September 30, 2023, Canfor has paid cumulative cash deposits of $920.2 million.

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 continues to be 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% from January to July 2023 and 1.36% thereafter, while ADD was expensed at an estimated accrual rate of 20.00%, unchanged from the prior quarter. 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 for 2021, and in July 2023, finalized the rates. The Company's final CVD rate was determined to be 1.36% (versus a cash deposit rate of 2.63% from January to November 2021 and 2.42% for December 2021) while the final ADD rate was 5.25% (versus a cash deposit rate of 1.99% from January to November 2021 and 17.12% for December 2021, and an estimated accrual rate of 7.00%). In July 2023, upon finalization of these POR4 rates, a recovery of $43.3 million (US$34.7 million) was recognized in the company's condensed consolidated statement of income (loss) for the three and nine months ended September 30, 2023, with a corresponding receivable included in 'Long Term Investments and Other' on the Company's condensed consolidated balance sheet reflecting the difference between the combined accrual rate between January and November of 9.63% and 9.42% for December 2021 and the final combined DOC rate for POR4 of 6.61%.

Also in July 2023, the Company's combined cash deposit rate of 5.87% was reset to the final rate of 6.61% as determined in POR4. 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 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 $374.8 million is included on the Company's condensed consolidated balance sheet (Note 4) reflecting differences between the cash deposit rates and the Company's combined accrual rates for each period of review, including interest. For the three and nine months ended September 30, 2023, the Company recorded a net duty recovery of $11.3 million and expense of $51.5 million, respectively (three and nine months ended September 30, 2022 – net duty recovery of $77.0 million and 5.9 million, respectively), comprised of the following:

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2023**	9 months ended September 30, **2023**
Cash deposits paid	$ **11.5**	$ **32.3**
Duty expense attributable to POR6 – combined CVD and ADD[3]	**20.5**	**62.5**
Duty recovery attributable to POR4 – combined CVD and ADD[4]	**(43.3)**	**(43.3)**
Duty expense (recovery), net	$ **(11.3)**	$ **51.5**

[3]Reflects Canfor's combined accrual rate (20.95% until July 2023 and 21.36% thereafter) compared to the DOC's deposit rate (5.87% until July 2023 and 6.61% thereafter) for POR6.

[4]Reflects Canfor's combined accrual rate (9.63% from January to November 2021 and 9.42% for December 2021) compared to the DOC's final combined rate (6.61% for the entirety of 2021) for POR4.

Canfor will continue to reassess the ADD accrual estimate at each quarter-end, applying the DOC's methodology to updated sales and cost data as this becomes available. Quarterly revisions to the ADD rate may result in a material adjustment to the condensed consolidated statement of income (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 statement of income (loss).

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