News Release

FOR IMMEDIATE RELEASE **October 26, 2021**

CANFOR REPORTS RESULTS FOR THIRD QUARTER OF 2021

Vancouver, BC - Canfor Corporation ("The Company" or "Canfor") (TSX: CFP) today reported its third quarter 2021 results:

Overview

- Q3 2021 reported operating income of $331 million driven by solid lumber segment results despite a sharp decline in North American lumber prices from prior quarter all-time highs
- Record quarterly earnings for the Company's European lumber operations
- Shareholder net income of $210 million, or $1.68 per share
- Cumulative cash deposits of $656 million on countervailing and anti-dumping duties at September 30, 2021

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 2021	Q2 2021	YTD 2021	Q3 2020	YTD 2020
Sales	**$ 1,676.6**	$ 2,495.2	**$ 6,113.6**	$ 1,550.4	$ 3,836.4
Reported operating income before amortization	**$ 425.4**	$ 1,134.6	**$ 2,256.7**	$ 393.1	$ 588.2
Reported operating income	**$ 331.0**	$ 1,041.3	**$ 1,974.9**	$ 299.6	$ 307.7
Adjusted operating income before amortization[1]	**$ 428.9**	$ 1,134.6	**$ 2,258.0**	$ 390.1	$ 580.5
Adjusted operating income[1]	**$ 334.5**	$ 1,041.3	**$ 1,976.2**	$ 296.6	$ 300.0
Net income[2]	**$ 210.0**	$ 726.9	**$ 1,364.7**	$ 218.1	$ 208.8
Net income per share, basic and diluted[2]	**$ 1.68**	$ 5.81	**$ 10.91**	$ 1.74	$ 1.67
Adjusted net income[2, 3]	**$ 210.3**	$ 721.2	**$ 1,365.7**	$ 221.7	$ 233.9
Adjusted net income per share, basic and diluted[2, 3]	**$ 1.69**	$ 5.76	**$ 10.92**	$ 1.77	$ 1.87

[1] Adjusted for inventory write-downs and recoveries ($3.5 million write-down in Q3 2021, $1.3 million net write-down in YTD 2021, $3.0 million recovery in Q3 2020, $5.5 million net recovery in YTD 2020), and net restructuring, mill closure and severance costs ($15.4 million in YTD 2020). Effective Q1 2021, results were no longer adjusted for countervailing and anti-dumping duties. Prior periods above have been restated to reflect this change ($50.7 million expense in Q3 2020, $114.3 million expense in YTD 2020).
[2] Attributable to equity shareholders of the Company.
[3] Adjusted for after-tax impact of certain one-time items, including restructuring costs, foreign exchange (gain) loss on term-debt, and (gain) loss on derivative financial instruments. Effective Q1 2021, net income (loss) and net income (loss) per share were no longer adjusted for the after-tax impact of duty deposits, net duties recoverable, and foreign exchange on duty deposits recoverable. Prior periods above have been restated to reflect this change (unfavourable per share impact of $0.30 in Q3 2020, $0.66 in YTD 2020).

The Company reported operating income of $331.0 million for the third quarter of 2021 driven by solid earnings in both the lumber and pulp and paper segments. Compared to the second quarter of 2021, current quarter reported operating income was down $710.3 million, reflecting a material decline in lumber segment earnings from an all-time high in the previous quarter, and, to a lesser extent, moderately lower pulp and paper segment earnings.

For the lumber segment, earnings decreased $674.4 million quarter-over-quarter largely as a result of steep declines in North American benchmark lumber prices through most of the current period. This drop in pricing, combined with lower production and shipment volumes and higher unit manufacturing costs, particularly in Western Canada, substantially outweighed the benefit of unprecedented European benchmark lumber prices.

Commenting on the Company's third quarter results, Canfor's President and Chief Executive Officer, Don Kayne, said, "Despite the decline in North American benchmark lumber prices and the supply chain challenges experienced during the quarter, our employees demonstrated ongoing resilience and we are pleased to see the continued benefit of our global diversification strategy, with our European lumber business results surpassing the previous quarter record and reaching a new all-time high in the current period. While our pulp business saw lower production, largely associated with the previously announced scheduled and unscheduled downtime, it delivered solid financial results in the quarter. The global supply chain constraints are expected to continue in the fourth quarter, but overall lumber markets are anticipated to be stronger."

North American market fundamentals weakened in the third quarter of 2021, as record-high lumber prices in the first half of the year, combined with global supply chain disruptions, led to significantly reduced consumer spending in the repair and remodeling sector and modestly lower new home construction activity.

Notwithstanding the downward pressure on North American pricing through the third quarter of 2021, US housing starts remained relatively strong largely due to a steady focus on multi-family dwellings. US housing starts averaged 1,566,000 units on a seasonally adjusted basis in the current quarter, broadly in line with the prior quarter. In Canada, housing starts averaged 263,000 on a seasonally adjusted basis in the current period, down 6% from the second quarter of 2021, primarily reflecting a slight slowdown in new home construction activity in several major cities.

Offshore lumber demand and prices in Asia, most notably Japan, continued to strengthen in the current period, as increased building activity and lean inventory levels in the region more than outweighed the impacts of global container shortages and port congestion. Western Europe and Scandinavian lumber demand remained solid through most of the current quarter, largely reflective of the continued strength in the repair and remodeling and residential construction sectors in that region.

The North American Random Lengths Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr price declined sharply through the first half of the current quarter, reaching a low of US$385 per Mfbm in mid-August. After improving somewhat through September, the Western SPF 2x4 #2&Btr price ended the period at US$533 per Mfbm and averaged US$494 per Mfbm for the current quarter, down US$848 per Mfbm, or 63%, from the previous quarter. The Company's Western SPF lumber unit sales realizations reflected this marked decline in North American benchmark pricing, offset in part by a significant uplift in offshore unit sales realizations, particularly in Japan.

The North American Random Lengths Southern Yellow Pine ("SYP") East 2x4 #2 price followed similar trends to Western SPF, reaching a low of US$492 per Mfbm late July before gradually increasing through the balance of the quarter to end the period at US$575 per Mfbm. For the current quarter overall, the SYP East 2x4 #2 price averaged US$533 per Mfbm, down US$630 per Mfbm, or 54%, from the prior quarter, with similar pricing declines seen in wider-width dimensions. As a result, the Company's SYP lumber unit sales realizations principally reflected these substantial declines in SYP benchmark pricing quarter-over-quarter.

In contrast to the Company's Western SPF and SYP lumber unit sales realizations, European lumber unit sales realizations experienced a notable uptick quarter-over-quarter, largely driven by strong European market demand, particularly in the United Kingdom, impacted somewhat by the timing lag in European contract pricing and the decline in the North American US-dollar benchmark pricing environment.

Total lumber shipments, at 1.32 billion board feet, were 14% lower than the previous quarter principally due to reduced production in Western Canada, and to a lesser extent, Europe. Shipments in the US South were relatively comparable quarter-over-quarter.

Total lumber production, at 1.28 billion board feet, was 15% below the prior quarter primarily reflecting temporary curtailments in July at the Company's Western Canadian operations stemming from extreme wildfire conditions and the associated significant transportation backlog, combined with the implementation of reduced operating schedules across the Company's operations in British Columbia ("BC") in August and September as a result of challenging lumber market conditions. Together, these temporary curtailments and capacity reductions lowered Western SPF production by approximately 160 million board feet in the current period. Lower production in the US South was largely a result of low log inventory levels due to wet weather in the region, while reduced production in Europe was attributable to four weeks of regular seasonal production downtime in July and August, mitigated in part by improved productivity across the Company's European operations.

Lumber unit manufacturing and product costs were significantly higher quarter-over-quarter, primarily reflecting notably higher log costs in Western Canada, and, to a lesser extent, Europe, combined with the incremental impact of lower production volumes on unit manufacturing costs. In BC, log cost increases in the current quarter were largely a result of higher market-based stumpage costs stemming from record lumber pricing earlier in the year. In Europe, a moderate uplift in log costs mainly reflected market-related increases in the region, correlated to the rise in European lumber prices. Log costs in the US South were broadly in line with the prior quarter.

Results in the pulp and paper segment for the third quarter of 2021 reflected a modest uplift in Northern Bleached Softwood Kraft ("NBSK") pulp unit sales realizations which was more than offset by a 15% decline in pulp production and shipments quarter-over-quarter.

Looking ahead, notwithstanding the sharp correction in North American benchmark lumber prices in the third quarter and ongoing global logistics constraints, overall lumber market fundamentals are projected to be strong through the fourth quarter of 2021, supported by steady demand in the residential and construction sector. In recent weeks, demand in the repair and remodeling sector, which experienced downward pressure in the third quarter, has significantly increased, and is anticipated to continue to improve over the balance of the year as supply and demand move back into balance following summer curtailments and reduced operating rates across Western Canada.

Offshore lumber demand in Asia, particularly in Japan, is projected to show moderate strength through the balance of 2021, as demand and supply trends experienced in the third quarter in that region are anticipated to continue. European lumber markets are forecast to come under pressure in the fourth quarter, with an anticipated reduction in consumption across all sectors following exceptionally strong demand in the preceding three quarters.

Looking forward, global softwood kraft pulp markets are anticipated to be more challenging through the fourth quarter of 2021, as above-average global pulp inventory levels and a heavily congested global supply chain network are projected to combine with softening Chinese demand. The latter, largely tied to the energy constraints on the industrial segment in that region. Weakness experienced in the high yield Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") market, especially in Asia, through the third quarter is anticipated to continue through the balance of the year.

Bleached kraft paper demand in North America is currently anticipated to strengthen through the fourth quarter of 2021, driven by both tight supply and increased demand. Offshore bleached kraft paper markets are also anticipated to be strong over the same period.

Additional Information and Conference Call

A conference call to discuss the third quarter's financial and operating results will be held on Wednesday, October 27, 2021 at 8:00 AM Pacific time. To participate in the call, in North America please dial Toll-Free 1-888-390-0546. For instant replay access until November 10, 2021, please dial 1-888-390-0541 and enter participant pass code 562242#. The conference call will be webcast live and will be available at www.canfor.com. This news release, the attached financial statements and a presentation used during the conference call can be accessed via the Company's website at http://www.canfor.com/investor-relations/webcasts.

Non-IFRS Measures and Forward-Looking Statements

Operating Income before Amortization, Adjusted Operating Income (Loss) and Adjusted Net Income (Loss) and Adjusted 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. Refer to the Company's Management's Discussion and Analysis for a reconciliation of Operating Income before Amortization and Adjusted Operating Income (Loss) to Operating Income (Loss) and Adjusted Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS.

Certain statements in this press release 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 Canfor assumes no obligation to update such information to reflect later events or developments, except as required by law.

Canfor is a leading integrated forest products company based in Vancouver, BC with interests in BC, Alberta, North and South Carolina, Alabama, Georgia, Mississippi, Arkansas and Louisiana, as well as in Sweden with its 70% interest in the Vida Group. Canfor produces primarily softwood lumber and also owns a 54.8% interest in Canfor Pulp Products Inc., which is one of the largest global producers of market Northern Bleached Softwood Kraft Pulp and a leading producer of high performance kraft paper. Canfor shares are traded on The Toronto Stock Exchange under the symbol CFP. For more information visit canfor.com.

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Canfor Corporation
Third Quarter 2021
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, 2021 relative to the quarters ended June 30, 2021 and September 30, 2020, and the financial position of the Company at September 30, 2021. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended September 30, 2021 and 2020, as well as the 2020 annual MD&A and the 2020 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2020 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income before Amortization and Adjusted Operating Income which Canfor considers to be a relevant indicator for measuring trends in the performance of each of its operating segments and the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. Reference is also made to Adjusted Shareholder Net Income (calculated as Shareholder Net Income less specific items affecting comparability with prior periods – for the full calculation, see the reconciliation included in the section "Analysis of Specific Material Items Affecting Comparability of Net Income") and Adjusted Shareholder Net Income per Share (calculated as Adjusted Shareholder Net Income divided by the weighted average number of shares outstanding during the period). Operating Income before Amortization and Adjusted Shareholder Net Income and Adjusted Shareholder Net Income per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, Canfor's Operating Income before Amortization, Adjusted Operating Income, Adjusted Shareholder Net Income and Adjusted Shareholder Net Income per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income before Amortization to Operating Income and Adjusted Shareholder Net Income to Net Income reported in accordance with IFRS are included in this MD&A. Throughout this discussion, reference is made to the current quarter, which refers to the results for the third quarter of 2021.

Factors that could impact future operations are also discussed. These factors may be influenced by 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 other operating costs; currency exchange rates; interest rates; changes in law and public policy; the outcome of labour and trade disputes; the outcome of government negotiations with Indigenous Nations; and opportunities available to or pursued by Canfor.

Certain comparative amounts for the prior period have been reclassified to conform to the current year's presentation.

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at October 26, 2021.

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 2021 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except ratios)	Q3 2021	Q2 2021	YTD 2021	Q3 2020	YTD 2020
Operating income (loss) by segment:					
Lumber	**$ 326.1**	$ 1,000.5	**$ 1,933.3**	$ 336.7	$ 355.0
Pulp and Paper	**$ 15.8**	$ 51.0	**$ 71.7**	$ (27.6)	$ (27.8)
Unallocated and Other	**$ (10.9)**	$ (10.2)	**$ (30.1)**	$ (9.5)	$ (19.5)
Total operating income	**$ 331.0**	$ 1,041.3	**$ 1,974.9**	$ 299.6	$ 307.7
Add: Amortization[1]	**$ 94.4**	$ 93.3	**$ 281.8**	$ 93.5	$ 280.5
Total operating income before amortization	**$ 425.4**	$ 1,134.6	**$ 2,256.7**	$ 393.1	$ 588.2
Add (deduct):					
Working capital movements	**$ 30.8**	$ 88.5	**$ (235.4)**	$ 77.3	$ 54.8
Defined benefit plan contributions, net	**$ (3.3)**	$ (3.9)	**$ (11.3)**	$ (2.0)	$ (11.1)
Income taxes received (paid), net	**$ (43.7)**	$ (121.7)	**$ (225.5)**	$ (2.3)	$ 69.0
Adjustment to accrued duties[2]	**$ 27.0**	$ 2.0	**$ 39.4**	$ (13.5)	$ (11.8)
Other operating cash flows, net[3]	**$ (15.8)**	$ (11.2)	**$ (4.8)**	$ (29.9)	$ 24.4
Cash from operating activities	**$ 420.4**	$ 1,088.3	**$ 1,819.1**	$ 422.7	$ 713.5
Add (deduct):					
Capital additions, net	**$ (128.5)**	$ (58.6)	**$ (252.9)**	$ (23.1)	$ (107.6)
Finance expenses paid	**$ (3.5)**	$ (7.1)	**$ (17.4)**	$ (8.8)	$ (35.8)
Proceeds (repayment) of term debt, net	**$ (0.3)**	$ (185.5)	**$ (414.9)**	$ (0.1)	$ 0.1
Share purchases	**$ (10.9)**	$ (8.0)	**$ (18.9)**	$ -	$ -
Phased acquisition of Elliott	**$ -**	$ -	**$ (38.2)**	$ -	$ (44.6)
Consideration paid for Bergs sawmill assets	**$ -**	$ -	**$ -**	$ (58.7)	$ (58.7)
Proceeds received from sale of Vavenby forest tenure	**$ -**	$ -	**$ -**	$ -	$ 56.5
Other, net[3]	**$ 2.0**	$ (20.2)	**$ (39.0)**	$ (14.9)	$ (23.2)
Change in cash / operating loans	**$ 279.2**	$ 808.9	**$ 1,037.8**	$ 317.1	$ 500.2
ROIC – Consolidated period-to-date[4]	**8.9%**	29.8%	**56.9%**	9.6%	9.7%
Average exchange rate (US$ per C$1.00)[5]	**$ 0.794**	$ 0.814	**$ 0.799**	$ 0.751	$ 0.739
Average exchange rate (SEK per C$1.00)[5]	**6.865**	6.851	**6.781**	6.650	6.937

[1] Amortization includes amortization of certain capitalized major maintenance costs.
[2] Adjusted to true-up preliminary ADD deposits to the Company's current accrual rates.
[3] Further information on cash flows may be found in the Company's unaudited interim consolidated financial statements.
[4] Consolidated Return on Invested Capital ("ROIC") is equal to operating income plus realized gains (losses) on derivative financial instruments (i.e. excluding mark-to-market adjustments), plus other income and excluding non-controlling interest, divided by the average invested capital during the period. Invested capital represents total assets excluding cash and total liabilities excluding term debt, retirement benefit obligations, long-term deferred reforestation obligations, and deferred taxes.
[5] Source – Bank of Canada (monthly average rate for the period).

Analysis of Specific Material Items Affecting Comparability of Shareholder Net Income

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	Q3 2021	Q2 2021	YTD 2021	Q3 2020	YTD 2020
Shareholder net income, as reported	**$ 210.0**	$ 726.9	**$ 1,364.7**	$ 218.1	$ 208.8
Foreign exchange (gain) loss on term debt	**$ 1.5**	$ (5.7)	**$ (6.8)**	$ (1.7)	$ 8.1
(Gain) loss on derivative financial instruments	**$ (1.2)**	$ -	**$ 7.8**	$ 5.3	$ 5.8
Restructuring, mill closure and severance costs, net	**$ -**	$ -	**$ -**	$ -	$ 11.2
Net impact of above items	**$ 0.3**	$ (5.7)	**$ 1.0**	$ 3.6	$ 25.1
Adjusted shareholder net income[6]	**$ 210.3**	$ 721.2	**$ 1,365.7**	$ 221.7	$ 233.9
Shareholder net income per share (EPS), as reported	**$ 1.68**	$ 5.81	**$ 10.91**	$ 1.74	$ 1.67
Net impact of above items per share	**$ 0.01**	$ (0.05)	**$ 0.01**	$ 0.03	$ 0.20
Adjusted shareholder net income per share[6]	**$ 1.69**	$ 5.76	**$ 10.92**	$ 1.77	$ 1.87

[6] Effective Q1 2021, shareholder net income and shareholder net income per share were no longer adjusted for the after-tax impact of duty deposits, net of duties recoverable, or foreign exchange on duty deposits recoverable. Prior periods above have been restated to reflect this change (unfavourable per share impact of $0.30 in Q3 2020, $0.66 in YTD 2020).

The Company reported operating income of $331.0 million for the third quarter of 2021 driven by solid earnings in both the lumber and pulp and paper segments. Compared to the second quarter of 2021, current quarter reported operating income was down $710.3 million, reflecting a material decline in lumber segment earnings from an all-time high in the previous quarter, and, to a lesser extent, moderately lower pulp and paper segment earnings.

For the lumber segment, earnings decreased $674.4 million quarter-over-quarter largely as a result of steep declines in North American benchmark lumber prices through most of the current period. This drop in pricing, combined with lower production and shipment volumes and higher unit manufacturing costs, particularly in Western Canada, substantially outweighed the benefit of unprecedented European benchmark lumber prices.

Results in the pulp and paper segment for the third quarter of 2021 reflected a modest uplift in Northern Bleached Softwood Kraft (“NBSK”) pulp unit sales realizations which was more than offset by a 15% decline in pulp production and shipments quarter-over-quarter.

Compared to the third quarter of 2020, reported operating income increased $31.4 million from operating income of $299.6 million in the comparative period, consisting of a $10.6 million decrease in lumber segment earnings and a $43.4 million improvement in pulp and paper segment results.

The decrease in lumber segment earnings from the third quarter of 2020 was primarily driven by lower earnings in the North American operations, partially offset by record-high earnings for the Company’s European operations in the current quarter. In the US South, a decline in earnings largely reflected a substantial decrease in Southern Yellow Pine (“SYP”) benchmark lumber prices in the current period. Reduced earnings from the Company’s Western Canadian operations were primarily associated with the significant impacts of British Columbia (“BC”) capacity reductions in the current period and considerably higher log costs, offset in part by notably higher Western Spruce/Pine/Fir (“SPF”) lumber unit sales realizations quarter-over-quarter. The improvement in pulp and paper segment operating results reflected substantially higher US-dollar NBSK pulp list pricing and an 9% increase in pulp production quarter-over-quarter, which significantly outweighed a 4 cent, or 6%, stronger Canadian dollar in the current period.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q3 2021	Q2 2021	YTD 2021	Q3 2020	YTD 2020
Sales[7]	**$ 1,377.9**	$ 2,161.1	**$ 5,218.5**	$ 1,324.1	$ 3,083.9
Operating income before amortization[7]	**$ 398.1**	$ 1,071.6	**$ 2,149.4**	$ 411.0	$ 574.5
Operating income[7]	**$ 326.1**	$ 1,000.5	**$ 1,933.3**	$ 336.7	$ 355.0
Inventory write-down recovery	**$ -**	$ -	**$ -**	$ -	$ (17.6)
Restructuring, mill closure and severance costs, net	**$ -**	$ -	**$ -**	$ -	$ 15.4
Adjusted operating income[8]	**$ 326.1**	$ 1,000.5	**$ 1,933.3**	$ 336.7	$ 352.8
Average Western SPF 2x4 #2&Btr lumber price in US$[9]	**$ 494**	$ 1,342	**$ 936**	$ 768	$ 508
Average Western SPF 2x4 #2&Btr lumber price in Cdn$[9]	**$ 622**	$ 1,649	**$ 1,171**	$ 1,022	$ 684
Average SYP 2x4 #2 lumber price in US$[10]	**$ 533**	$ 1,163	**$ 952**	$ 782	$ 544
Average SYP 2x4 #2 lumber price in Cdn$[10]	**$ 671**	$ 1,429	**$ 1,191**	$ 1,041	$ 402
Average European indicative lumber price in SEK[11]	**8,330**	6,101	**6,275**	3,414	3,340
Average European indicative lumber price in US$[11]	**$ 963**	$ 725	**$ 746**	$ 377	$ 353
Average European indicative lumber price in Cdn$[11]	**$ 1,213**	$ 891	**$ 925**	$ 513	$ 482
US housing starts (thousand units SAAR)[12]	**1,566**	1,588	**1,584**	1,440	1,337
Production – Western SPF lumber (MMfbm)[13]	**550**	721	**1,984**	726	1,795
Production – SYP lumber (MMfbm)[13]	**413**	435	**1,262**	431	1,116
Production – European lumber (MMfbm)[13]	**316**	351	**1,014**	261	832
Shipments – Western SPF lumber (MMfbm)[14]	**572**	708	**1,944**	667	1,772
Shipments – SYP lumber (MMfbm)[14]	**440**	431	**1,261**	429	1,142
Shipments – European lumber (MMfbm)[14]	**306**	401	**1,102**	275	862

[7] Q3 2021 includes sales of $432.3 million, operating income of $167.8 million, and operating income before amortization of $186.5 million from European operations (Q2 2021 – sales of $445.7 million, operating income of $162.3 million, and operating income before amortization of $180.9 million; Q3 2020 – sales of $233.1 million, operating income of $26.6 million, and operating income before amortization of $44.7 million). Operating income from European operations in Q3 2021 includes $10.5 million in incremental amortization and other expenses driven by the purchase price allocation at acquisition (Q2 2021 - $10.6 million; Q3 2020 - $10.8 million).

[8] Effective Q1 2021, results were no longer adjusted for countervailing and anti-dumping duties. Prior periods above have been restated to reflect this change ($50.7 million expense in Q3 2020, $114.3 million expense in YTD 2020).

[9] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.); Average Western SPF 2x4 #2&Btr lumber price in Cdn$ calculated as average Western SPF 2x4 #2&Btr lumber price in US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average for the period.

[10] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.). Average SYP 2x4 #2 lumber price in Cdn$ calculated as average SYP 2x4 #2 lumber price in US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average for the period.

[11] European indicative lumber price is an internally generated benchmark based on delivered price to the largest continental market; Average European indicative lumber price in US$ and Cdn$ calculated as average European indicative lumber price in SEK multiplied by the average exchange rate – US$ and Cdn$ per SEK1.00, respectively, according to Bank of Canada monthly average rate for the period.

[12] Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").

[13] Excluding production of trim blocks.

[14] Canfor produced lumber, including lumber purchased for remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

Markets

North American market fundamentals weakened in the third quarter of 2021, as record-high lumber prices in the first half of the year, combined with global supply chain disruptions, led to significantly reduced consumer spending in the repair and remodeling sector and modestly lower new home construction activity.

Notwithstanding the downward pressure on North American pricing through the third quarter of 2021, US housing starts remained relatively strong largely due to a steady focus on multi-family dwellings. US housing starts averaged 1,566,000 units on a seasonally adjusted basis in the current quarter, broadly in line with the prior quarter. In Canada, housing starts averaged 263,000 on a seasonally adjusted basis in the current period, down 6% from the second quarter of 2021, primarily reflecting a slight slowdown in new home construction activity in several major cities.

Offshore lumber demand and prices in Asia, most notably Japan, continued to strengthen in the current period, as increased building activity and lean inventory levels in the region more than outweighed the impacts of global container shortages and port congestion. Western Europe and Scandinavian lumber demand remained solid through most of the current quarter, largely reflective of the continued strength in the repair and remodeling and residential construction sectors in that region.

<u>Sales</u>

Sales revenues for the lumber segment for the third quarter of 2021 were $1,377.9 million, compared to $2,161.1 million in the previous quarter and $1,324.1 million for the third quarter of 2020. The 36% decrease in sales revenue compared to the prior quarter primarily reflected a substantial decline in Western SPF and SYP US-dollar prices, and in part, significantly lower North American shipment volumes. These factors were partially offset by a significant uplift in offshore and European market prices, and to a lesser extent, a 2 cent, or 2%, weaker Canadian dollar in the current quarter.

Compared to the third quarter of 2020, sales revenues were up 4% as record European pricing and higher European shipments in the current quarter were largely offset by lower Western SPF and SYP sales revenues. The decline in Western Canadian sales revenues quarter-over-quarter reflected a 14% decrease in shipments, principally due to reduced production in the current period, partially offset by significantly higher Western SPF lumber unit sales realizations. In the US South, the decline in sales revenues was mainly attributed to the substantial decline in SYP US-dollar pricing in the current quarter.

Total lumber shipments, at 1.32 billion board feet, were 14% lower than the previous quarter principally due to reduced production in Western Canada, and to a lesser extent, Europe. Shipments in the US South were relatively comparable quarter-over-quarter.

Total lumber shipments were 4% lower than the third quarter of 2020, primarily reflecting temporary capacity reductions in the BC region in the current period, offset by significantly higher European shipment volumes due in part to the Vida Group's ("Vida") acquisition of Bergs Timber Production AB ("Bergs") in September 2020. Shipments in the US South were broadly in line with the third quarter of 2020.

The North American Random Lengths Western SPF 2x4 #2&Btr price declined sharply through the first half of the current quarter, reaching a low of US$385 per Mfbm in mid-August. After improving somewhat through September, the Western SPF 2x4 #2&Btr price ended the period at US$533 per Mfbm and averaged US$494 per Mfbm for the current quarter, down US$848 per Mfbm, or 63%, from the previous quarter. The Company's Western SPF lumber unit sales realizations reflected this marked decline in North American benchmark pricing, offset in part by a significant uplift in offshore unit sales realizations, particularly in Japan.

The North American Random Lengths SYP East 2x4 #2 price followed similar trends to Western SPF, reaching a low of US$492 per Mfbm late July before gradually increasing through the balance of the quarter to end the period at US$575 per Mfbm. For the current quarter overall, the SYP East 2x4 #2 price averaged US$533 per Mfbm, down US$630 per Mfbm, or 54%, from the prior quarter, with similar pricing declines seen in wider-width dimensions. As a result, the Company's SYP lumber unit sales realizations principally reflected these substantial declines in SYP benchmark pricing quarter-over-quarter.

In contrast to the Company's Western SPF and SYP lumber unit sales realizations, European lumber unit sales realizations experienced a notable uptick quarter-over-quarter, largely driven by strong European market demand, particularly in the United Kingdom, impacted somewhat by the timing lag in European contract pricing and the decline in the North American US-dollar benchmark pricing environment.

Compared to the third quarter of 2020, the Company's Western SPF unit sales realizations significantly increased, principally reflecting a substantial uplift in lumber prices to Asia, particularly Japan, quarter-over-quarter, a reduction in countervailing ("CVD") and anti-dumping ("ADD") duties in the current period, and in part, a favourable timing lag in orders (versus shipments) largely driven by the ongoing global supply chain challenges. These factors more than offset the steep decline in the average North American Random Lengths Western SPF 2x4 #2&Btr price, which at US$494 per Mfbm decreased US$274 per Mfbm, or 36%, from the comparative period, and the 6% stronger Canadian dollar in the current quarter.

The Company's SYP unit sales realizations were significantly lower than the third quarter of 2020 as a result of a US$249 per Mfbm, or 32%, decline in the SYP East 2x4 #2 price, with similar decreases seen across all other SYP dimension products. Over the same comparative period, European lumber unit sales realizations reflected a material strengthening in European market demand and pricing, most notably the United Kingdom, offset in part by a significant decline in North American US-dollar benchmark prices, and a 3% stronger Canadian dollar against the Swedish Krona ("SEK").

Other revenues for the Company's lumber segment (which are primarily comprised of residual fibre, pulp log and pellet sales, as well as the Company's European operations' other related revenues) were moderately lower than the prior quarter, primarily reflecting declines in other European revenues, largely attributable to seasonal production downtime, and to a lesser extent, the timing of pellet shipments. Other revenues were up significantly from the third quarter of 2020 principally due to an up-tick in other European revenues, driven primarily by market-related increases in residual fibre and packaging product revenues.

Operations

Total lumber production, at 1.28 billion board feet, was 15% below the prior quarter primarily reflecting temporary curtailments in July at the Company's Western Canadian operations stemming from extreme wildfire conditions and the associated significant transportation backlog, combined with the implementation of reduced operating schedules across the Company's operations in BC in August and September as a result of challenging lumber market conditions. Together, these temporary curtailments and capacity reductions lowered Western SPF production by approximately 160 million board feet in the current period. Lower production in the US South was largely a result of low log inventory levels due to wet weather in the region, while reduced production in Europe was primarily attributable to four weeks of regular seasonal production downtime in July and August.

Compared to the third quarter of 2020, lumber production was down 10%, as the incremental benefit of a full quarter of Bergs production following the acquisition late in the comparative period, combined with increased productivity across the European lumber operating region, was offset by the aforementioned production downtime in Western Canada, and to a lesser degree, weather-related challenges in the US South.

Lumber unit manufacturing and product costs were significantly higher compared to both comparative periods, primarily reflecting notably higher log costs in Western Canada, and, to a lesser extent, Europe, combined with the incremental impact of lower production volumes on unit manufacturing costs. In BC, log cost increases in the current quarter were largely a result of higher market-based stumpage costs stemming from record lumber pricing earlier in the year. In Europe, a moderate uplift in log costs mainly reflected market-related increases in the region, correlated to the rise in European lumber prices. Log costs in the US South were broadly in line with the prior quarter.

Pulp and Paper

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

(millions of Canadian dollars, unless otherwise noted)	**Q3 2021**	Q2 2021	**YTD 2021**	Q3 2020	YTD 2020
Sales	**$ 298.7**	$ 334.1	**$ 895.1**	$ 226.3	$ 752.5
Operating income (loss) before amortization[16]	**$ 37.8**	$ 72.9	**$ 136.4**	$ (8.7)	$ 32.3
Operating income (loss)	**$ 15.8**	$ 51.0	**$ 71.7**	$ (27.6)	$ (27.8)
Average NBSK pulp price delivered to China – US$[17]	**$ 832**	$ 962	**$ 892**	$ 572	$ 572
Average NBSK pulp price delivered to China – Cdn$[17]	**$ 1,048**	$ 1,181	**$ 1,116**	$ 761	$ 774
Production – pulp (000 mt)	**247**	290	**829**	227	785
Production – paper (000 mt)	**31**	34	**94**	24	87
Shipments – pulp (000 mt)	**241**	285	**791**	249	787
Shipments – paper (000 mt)	**34**	30	**100**	27	97

[15] Includes 100% of Canfor Pulp Products Inc., which is consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both NBSK pulp and BCTMP.
[16] Amortization includes amortization of certain capitalized major maintenance costs.
[17] Per tonne, NBSK pulp list net price delivered to China (as published by Resource Information Systems, Inc. ("RISI")); Average NBSK pulp net price delivered to China in Cdn$ calculated as average NBSK pulp net price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.

Markets

Following the strong global pulp market conditions experienced in the first half of the year, market fundamentals came under modest pressure in the current quarter, as a decline in demand and purchasing activity from the near-record highs seen in the previous quarter, particularly from Asian markets, was combined with growing global transportation challenges. Average US-dollar NBSK pulp list prices to China for the current quarter were US$832 per tonne, down US$130 per tonne, or 14%, from the previous quarter and up US$260 per tonne, or 45%, compared to the third quarter of 2020. Prices to other global regions remained strong in the current period, with the average US-dollar NBSK pulp list price to North America at US$1,542 per tonne (before discounts), down US$56 per tonne, or 4%, from the near-record highs seen in comparative period, and up US$409 per tonne, or 36%, compared to the same period in the prior year.

Global softwood pulp producer inventories at the end of August 2021 were significantly above the balanced range at 46 days[18] of supply, six days higher than at the end of June 2021 (market conditions are generally considered balanced when inventories are in the 29-36 days of supply range), as tepid demand, especially in China, was intensified by global supply chain disruptions.

Global kraft paper market demand was steady through most of the third quarter of 2021, especially in North America.

<u>Sales</u>

Pulp shipments for the third quarter of 2021 were 241,000 tonnes, down 44,000 tonnes, or 15%, from the previous quarter and down 8,000 tonnes, or 3%, from the third quarter of 2020. Pulp shipments in the current quarter largely reflected a 15% decrease in pulp production combined with a build in pulp inventories, driven by the persistent impacts of a constrained logistics network, due to both wildfire-related rail disruptions in BC in July as well as global container shortages and port congestion.

Compared to the third quarter of 2020, the decrease in pulp shipments was primarily driven by the timing of vessels quarter-over-quarter, with significant vessel delays experienced in the current period driven by the aforementioned global supply chain constraints, resulting in a build of pulp inventories. This was combined with a drawdown in pulp inventories in the comparative period, offset in part by higher production levels in the current quarter.

Notwithstanding the declines in NBSK pulp list prices in the current quarter, Canfor Pulp Products Inc.'s ("CPPI") NBSK pulp unit sales realizations experienced a modest increase compared to the second quarter of 2021, primarily due to a delay in shipments (versus orders) from the ongoing global container shortages and logistic challenges, and, to a lesser extent, the 2% weaker Canadian dollar. The downward trend in demand and US-dollar prices for Bleached Chemi-Thermo Mechanical Pulp ("BCTMP"), particularly from the printing and writing segment, that commenced in the second quarter of 2021 continued through the current period, giving rise to a significant decline in CPPI's BCTMP unit sales realizations quarter-over-quarter.

Compared to the third quarter of 2020, average NBSK pulp unit sales realizations saw a substantial increase, as a notable uptick in demand and US-dollar pulp list pricing significantly outweighed the 6% stronger Canadian dollar in the current period. Average BCTMP unit sales realizations were moderately higher compared to the comparative period, primarily reflecting a more modest improvement (relative to NBSK pulp) in BCTMP demand and prices.

Energy revenues increased compared to the second quarter of 2021, principally due to seasonally higher power prices, offset in part by reduced turbine operating days in the current period, largely due to production downtime at CPPI's Northwood NBSK ("Northwood") pulp mill. Compared to the third quarter of 2020, higher energy revenue was primarily due to the quarter-over-quarter production improvements and the correlated uplift in energy generation.

Paper shipments in the third quarter of 2021 were 34,000 tonnes, up 4,000 tonnes from the prior quarter, largely due to the timing of shipments quarter-over-quarter, offset in part by reduced paper production in the current period, tied to planned scheduled downtime. Compared to the third quarter of 2020, paper shipments increased 7,000 tonnes principally reflecting the coronavirus ("COVID-19") related paper production curtailment in the comparative period.

Paper unit sales realizations in the third quarter of 2021 were modestly higher than the previous quarter, as a slight uptick in US-dollar pricing was combined with the weaker Canadian dollar. Compared to the third quarter of 2020, paper unit sales realizations experienced a slight increase, primarily reflecting a notable improvement in global US-dollar prices quarter-over-quarter, largely offset by the stronger Canadian dollar.

[18] 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").

Operations

Pulp production was 247,000 tonnes for the third quarter of 2021, down 43,000 tonnes, or 15%, from the previous quarter, primarily reflecting the quarter-over-quarter impact of scheduled and unscheduled downtime. In the current quarter, decreased operating days largely reflected scheduled maintenance outages at CPPI's Prince George NBSK pulp ("PG") and Taylor BCTMP ("Taylor") mills, as well as incremental downtime at its Northwood and Taylor mills reflecting both weather-related rail disruptions and related pulp mill inventory capacity constraints and, in the case of Northwood, digester-related operational upsets in July. Combined, decreased operating days in the current period reduced NBSK pulp production by approximately 30,000 tonnes and BCTMP production by 12,000 tonnes. In addition, current quarter pulp production reflected various smaller operational upsets through the quarter (approximately 15,000 tonnes). In the second quarter of 2021, CPPI's pulp production was impacted by the completion of a scheduled maintenance outage at CPPI's Intercontinental NBSK pulp mill (approximately 15,000 tonnes).

Compared to the third quarter of 2020, pulp production was up 20,000 tonnes, or 9%, primarily driven by reduced downtime in the current quarter. In the comparative period, COVID-19 related production curtailments at CPPI's PG and Intercontinental NBSK pulp mills reduced pulp production by 38,000 tonnes. This was combined with a scheduled maintenance outage at Taylor, which reduced BCTMP production by 10,000 tonnes, and, to a lesser extent, several operational issues at the PG pulp mill. Lastly, in September 2020, Northwood commenced its scheduled maintenance outage, which was completed on one production line in early October 2020; this outage reduced pulp production by 20,000 tonnes in the third quarter of 2020 and by a further 15,000 tonnes in October 2020.

Pulp unit manufacturing costs were significantly higher than the prior quarter principally reflecting increased fibre costs and reduced production in the current quarter. The higher fibre costs were primarily due to increased market prices for sawmill delivered residual chips (linked to Canadian dollar NBSK pulp sales realizations) combined with a larger proportion of higher-cost whole log chips as a result of sawmill curtailments in the current quarter.

Compared to the third quarter of 2020, moderately higher pulp unit manufacturing costs were mostly attributable to market-related increases in fibre costs, and, to a lesser extent, increased energy costs and higher maintenance spend in the current period, offset in part, by increased production.

Paper production for the third quarter of 2021 was 31,000 tonnes, down 3,000 tonnes from the previous quarter, principally reflecting the PG pulp and paper mill's scheduled maintenance outage in the current quarter. Compared to the third quarter of 2020, paper production was up 7,000 tonnes primarily due to the quarter-over-quarter impact of downtime in both periods.

Paper unit manufacturing costs were significantly higher than the second quarter of 2021, largely reflecting the impact of the aforementioned scheduled outage combined with increased slush pulp costs associated with higher average NBSK pulp sales realizations in the current quarter. Compared to the third quarter of 2020, paper unit manufacturing costs saw a substantial increase primarily driven by higher slush pulp costs, with conversion costs comparable quarter-over-quarter.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)	**Q3 2021**	Q2 2021	**YTD 2021**	Q3 2020	YTD 2020
Corporate costs	**$ (10.9)**	$ (10.2)	**$ (30.1)**	$ (9.5)	$ (19.5)
Finance expense, net	**$ (6.0)**	$ (6.4)	**$ (19.9)**	$ (11.2)	$ (40.3)
Foreign exchange gain (loss) on term debt and duties recoverable, net	**$ 1.1**	$ 3.3	**$ 4.9**	$ 1.1	$ (8.3)
Gain (loss) on derivative financial instruments	**$ 1.1**	$ 0.5	**$ (11.5)**	$ (7.9)	$ (8.4)
Other income, net	**$ 7.2**	$ 1.3	**$ 21.7**	$ 5.9	$ 17.4

Corporate costs were $10.9 million for the third quarter of 2021, up $0.7 million from the prior quarter and up $1.4 million from the third quarter of 2020 largely reflecting an increase in strategic-related spend, as well as head office and general administrative expenses in the current period.

Net finance expense of $6.0 million for the third quarter of 2021 was broadly in line with the previous quarter. Compared to the third quarter of 2020, net finance expense was down $5.2 million, primarily reflecting significantly lower debt levels in the current period.

In the third quarter of 2021, the Company recognized a foreign exchange gain on its US-dollar denominated net duty deposits recoverable, offset, to a degree, by a loss on US-dollar term debt held by Canadian entities, due to the weakening of the Canadian dollar at the end of the current quarter compared to the end of June 2021 (see further discussion on the term debt financing in the "Liquidity and Financial Requirements" section).

At times, the Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in lumber prices, energy costs, interest and foreign exchange rates. In the third quarter of 2021, the Company recorded a gain of $1.1 million related to its derivative instruments, principally reflecting realized mark-to-market gains on lumber futures contracts. The $7.9 million net loss in the third quarter of 2020 primarily reflected realized losses on lumber futures contracts, and to a lesser extent, losses on SEK forward foreign exchange forward contracts.

Other income, net, of $7.2 million in the third quarter of 2021 principally related to favourable foreign exchange movements on US-dollar denominated working capital balances. Other income, net, in the third quarter of 2020 primarily reflected the receipt of insurance proceeds related to unscheduled downtime at Northwood in 2018 to enable the necessary tube replacements to its number five recovery boiler ("RB5"), adjusted for unfavourable foreign exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Income (Loss)

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

(millions of Canadian dollars)	Q3 2021	Q2 2021	YTD 2021	Q3 2020	YTD 2020
Defined benefit actuarial gain (loss), net of tax	**$ 9.1**	$ (5.3)	**$ 27.0**	$ (13.0)	$ (19.6)
Foreign exchange translation differences for foreign operations, net of tax	**$ 30.6**	$ (14.3)	**$ (47.4)**	$ (12.1)	$ 56.1
Other comprehensive income (loss), net of tax	**$ 39.7**	$ (19.6)	**$ (20.4)**	$ (25.1)	$ 36.5

In the third quarter of 2021, the Company recorded a gain of $12.4 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), largely reflecting a higher than anticipated return on plan assets. This compared to a loss of $7.2 million (before tax) in the second quarter of 2021, which largely reflected a 0.2% decrease in the discount rate used to value the defined benefit plans, partially offset by a higher than anticipated return on plan assets. In the third quarter of 2020, the Company recorded a loss of $17.9 million (before tax), largely reflecting a 0.3% decrease in the discount rate, offset in part by a higher than anticipated return on plan assets.

In addition, the Company recorded an accounting gain of $30.6 million in the third quarter of 2021 related to foreign exchange adjustments for foreign operations, principally reflecting the weakening of the Canadian dollar relative to the US-dollar, significantly outweighing a slight strengthening of the Canadian dollar relative to the SEK. This compared to a loss of $14.3 million in the second quarter of 2021 and a loss of $12.1 million in the third quarter of 2020.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except ratios)	Q3 2021	Q2 2021	YTD 2021	Q3 2020	YTD 2020
Increase (decrease) in cash and cash equivalents[19]	**$ 265.3**	$ 799.6	**$ 1,037.4**	$ 32.5	$ 131.1
Operating activities	**$ 420.4**	$ 1,088.3	**$ 1,819.1**	$ 422.7	$ 713.5
Financing activities	**$ (28.9)**	$ (225.8)	**$ (480.5)**	$ (308.8)	$ (431.0)
Investing activities	**$ (126.2)**	$ (62.9)	**$ (301.2)**	$ (81.4)	$ (151.4)
Ratio of current assets to current liabilities	**2.6:1**	2.7:1		2.1:1	
Net debt (cash) to capitalization[20]	**(41.5)%**	(32.0)%		18.6%	
Cumulative duty deposits at end of period	**$ 656.1**	$ 644.7		$ 547.5	

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

[20] Net debt (cash) to capitalization is equal to net debt (cash) divided by net capitalization. Net debt (cash) is equal to interest-bearing debt less cash and cash equivalents on hand. Net capitalization is equal to net debt (cash) plus total equity.

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

Operating Activities

Operating activities generated $420.4 million of cash in the third quarter of 2021, compared to cash generated of $1,088.3 million in the previous quarter and $422.7 million in the third quarter of 2020. The decrease in operating cash flows from the second quarter of 2021 largely reflected materially lower cash earnings and, to a much smaller extent, unfavourable working capital movements, offset to a degree by lower tax installment payments in the current quarter. Unfavourable working capital movements were driven by a seasonal build of log inventories combined with higher log costs in Western Canada, associated with significantly higher market-based stumpage rates, offset in part by lower trade accounts receivables quarter-over-quarter reflecting the significant decline in North American US-dollar benchmark lumber prices and shipments. Operating cash flows in the current quarter were broadly in line with the third quarter of 2020.

Financing Activities

Cash used for financing activities in the third quarter of 2021 was $28.9 million compared to $225.8 million in the second quarter of 2021 and $308.8 million in the third quarter of 2020. Financing activities in the current quarter largely consisted of share repurchases and lease payments in comparison to a $185.0 million (US$150.0 million) repayment of the Company's US-dollar denominated floating rate term debt in the previous quarter. In the third quarter of 2020, financing activities primarily consisted of repayments of amounts drawn on the Company's operating loan facilities due to improved cash earnings in that period.

Investing Activities

Cash used for investing activities in the third quarter of 2021 was $126.2 million, compared to $62.9 million for the second quarter of 2021 and $81.4 million for the third quarter of 2020. Investing activities in the current and prior quarter were principally comprised of capital additions. In the third quarter of 2020, investing activities primarily included Vida's purchase of Bergs sawmill assets for total consideration of $58.7 million (390 million SEK), including working capital and other adjustments.

Capital additions in the third quarter of 2021 were $128.5 million, up $69.9 million from the previous quarter and $105.4 million from the third quarter of 2020. In the lumber segment, current quarter capital expenditures primarily reflected costs related to the construction of the Company's greenfield sawmill in DeRidder, Louisiana (see further discussion in the "Greenfield Sawmill" section), as well as maintenance-of-business capital across all lumber operating regions. In the pulp and paper segment, current quarter expenditures were principally comprised of maintenance-of-business capital spending.

Liquidity and Financial Requirements

Operating Loans – Consolidated

At September 30, 2021, on a consolidated basis, including CPPI and Vida, the Company had cash of $1,460.6 million, with $15.9 million drawn on its operating loan facilities, and an additional $80.7 million reserved for several standby letters of credit. At the end of the quarter, the Company had available, undrawn operating loan facilities of $1,151.9 million, including the undrawn revolving credit facility and undrawn facilities for letters of credit.

Operating Loans – Canfor, excluding Vida and CPPI

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

As at September 30, 2021, Canfor, excluding CPPI and Vida, had available operating loan facilities totaling $1,034.8 million, with no amounts drawn on its principal committed operating loan facility or revolving credit facility, and $67.8 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans, leaving $967.0 million available and undrawn on its operating loan facilities at the end of the period.

Operating Loans – Vida

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 1.2% to 5.0%. Vida also has separate overdraft facilities with fixed interest rates ranging from 1.2% to 3.4%. Vida's operating loan facilities have certain financial covenants including minimum equity and interest coverage ratios.

At September 30, 2021, Vida had $15.9 million drawn on its $103.7 million operating loan facilities, leaving $87.8 million available and undrawn at the end of the quarter.

Operating Loans – CPPI

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

At September 30, 2021, CPPI had a $110.0 million operating loan facility, with $12.9 million reserved for several standby letters of credit under the operating loan facility, leaving $97.1 million available and undrawn on its operating loan facility at the end of the current quarter.

Term Debt

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

Net Debt (Cash) and Liquidity

At September 30, 2021, on a consolidated basis, including CPPI and Vida, the Company had total net cash[21] of $1,190.9 million, up $274.9 million from the end of the previous quarter. Available liquidity of $2,612.5 million increased by $284.3 million from the previous quarter.

The Company's consolidated net cash to total capitalization at the end the third quarter of 2021 was 41.5%. For Canfor, excluding CPPI, net cash to capitalization at the end of the third quarter of 2021 was 45.5%.

Debt Covenants

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

Normal Course Issuer Bid

On June 16, 2021, the Company re-instituted its normal course issuer bid whereby it can purchase for cancellation up to 6,260,970 common shares, or approximately 5% of its issued and outstanding common shares as at June 10, 2021. The normal course issuer bid is set to expire on June 15, 2022.

During the third quarter of 2021, the Company purchased 415,000 common shares for $10.7 million (an average price of $25.78 per common share), of which $10.4 million was paid in the current quarter. An additional $0.5 million was paid during the third quarter of 2021 in relation to shares purchased in the second quarter of 2021.

Shares Outstanding

As at September 30, 2021 and October 26, 2021, there were 124,493,600 common shares of the Company outstanding, and Canfor's ownership interest in CPPI and Vida was at 54.8% and 70.0%, respectively.

Greenfield Sawmill

On June 8, 2021, the Company announced its plans to build a new, state-of-the-art sawmill near DeRidder, Louisiana, with significant state and local incentives expected to be received in support of the project. The facility is anticipated to have an annual production capacity of 250 million board feet, with the ability to produce a wide variety of high-value wood products. Startup of the sawmill is currently anticipated late in the third quarter of 2022.

[21] Net cash is equal to interest-bearing debt less cash and cash equivalents on hand.

As at September 30, 2021, Canfor had made payments of $31.3 million (US$24.5 million) related to the construction of the sawmill and had estimated contractual commitments of $176.0 million (US$139.1 million) remaining; $138.7 million (US$109.7 million) of the commitments are expected to be settled within one year and $37.3 million (US$29.4 million) of the commitments are expected to be settled within two years.

Countervailing and Anti-Dumping Duties

On January 1, 2021, the Company moved into the fourth period of review ("POR4"), which is based on sales and cost data in 2021. Consistent with prior periods of review, the Company was unable to estimate an applicable CVD rate separate from the US Department of Commerce's ("DOC") cash deposit rate. As a result, CVD was expensed at a rate of 2.63% for POR4, while ADD was expensed at an estimated rate of 5.0%, resulting in a combined CVD and ADD accrual rate of 7.63% (versus the combined cash deposit rate of 4.62%, comprised of a CVD rate of 2.63% and ADD rate of 1.99%) for the third quarter. The estimated ADD accrual rate for POR4 increased from an estimated rate of 3.0% at June 30, 2021, largely driven by a sharp decline in lumber pricing in the third quarter of 2021, resulting in an incremental ADD expense of $20.4 million (US$16.4 million) recognized in the current period, attributable to prior quarters. Despite cash deposits being made in 2021 at rates determined by the DOC (4.62%), the final liability associated with duties is not determined until the completion of administrative reviews performed by the DOC.

In May 2021, the DOC announced the preliminary results for the second period of review ("POR2"), which is based on sales and cost data in 2019. The Company's preliminary CVD cash deposit rate was determined to be 2.42% for 2019 (versus a cash deposit rate of 13.24%), while the preliminary ADD cash deposit rate was 18.62% (versus a cash deposit rate of 7.28% and estimated accrual rate of 16.00%). Upon finalization of these rates (currently anticipated in late November 2021), a net recovery is anticipated to be recognized in the Company's consolidated financial statements to reflect the difference between the accrual rate of 29.24% and final rates as established by the DOC for the second period of review (21.04% based on the preliminary determination). The net recovery is currently estimated at $38.7 million (US$30.6 million).

In addition, upon finalization of these rates, the Company's current combined cash deposit rate of 4.62% will be reset to the final rates as determined in the second period of review (21.04% based on the preliminary determination). This new cash deposit rate will apply to the Company's Canadian lumber shipments destined to the United States until completion of the administrative review for the third period of review (anticipated in the second half of 2022).

OUTLOOK

Lumber

Looking ahead, notwithstanding the sharp correction in North American benchmark lumber prices in the third quarter and ongoing global logistics constraints, overall lumber market fundamentals are projected to be strong through the fourth quarter of 2021, supported by steady demand in the residential and construction sector. In recent weeks, demand in the repair and remodeling sector, which experienced downward pressure in the third quarter, has significantly increased, and is anticipated to continue to improve over the balance of the year as supply and demand move back into balance following summer curtailments and reduced operating rates across Western Canada.

Offshore lumber demand in Asia, particularly in Japan, is projected to show moderate strength through the balance of 2021, as demand and supply trends experienced in the third quarter in that region are anticipated to continue. European lumber markets are forecast to come under pressure in the fourth quarter, with an anticipated reduction in consumption across all sectors following exceptionally strong demand in the preceding three quarters.

Pulp and Paper

Looking forward, global softwood kraft pulp markets are anticipated to be more challenging through the fourth quarter of 2021, as above-average global pulp inventory levels and a heavily congested global supply chain network are projected to combine with softening Chinese demand. The latter, largely tied to the energy constraints on the industrial segment in that region. Weakness experienced in the high yield BCTMP market, especially in Asia, through the third quarter is anticipated to continue through the balance of the year.

Bleached kraft paper demand in North America is currently anticipated to strengthen through the fourth quarter of 2021, driven by both tight supply and increased demand. Offshore bleached kraft paper markets are also anticipated to be strong over the same period.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, certain accounts receivable, pension and other employee future benefit plans, asset retirement and deferred reforestation obligations, and the determination of ADD expensed and recorded as recoverable based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Company's financial condition, other than the possibility of material effects to the income statement from the Company's estimated ADD net duty deposits recoverable as discussed in Notes 4 and 14 of the consolidated interim financial statements.

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective January 1, 2021, the Company has adopted amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures, and* IFRS 16 *Leases, Interest Rate Benchmark Reform – Phase 2* ("Phase 2") as issued in August 2020. Phase 2 of the amendments required financial instruments measured using amortized cost to be adjusted to reflect changes to the effective interest rate. For the Company, the adoption of Phase 2 is applicable to its Canadian dollar denominated floating rate term debt and its committed operating loan facilities, excluding Vida, which have yet to transition to an alternative benchmark interest rate as at September 30, 2021. As a result, there was no impact to the Company's financial results upon adoption of Phase 2.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2021, 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 2020 annual statutory reports which are available on www.canfor.com or www.sedar.com.

Indigenous Relations

On June 29, 2021, the BC Supreme Court released its decision in *Yahey v British Columbia*, in which it ruled that the rights of the Blueberry River First Nation ("BRFN") under Treaty 8 in northeast BC had been breached by the cumulative impacts of industrial developments within BRFN's traditional territory over many years, including forestry, oil and gas, renewable energy and agriculture (the "Blueberry River decision"). The Blueberry River decision has potentially significant implications on regulatory and operational requirements for industrial development activities in northeast BC and could extend to other areas in Canada where similar claims may be made.

On October 7, 2021, BRFN and the Province of BC reached an initial agreement that is described by the Province as a first step in responding to the Blueberry River decision, which requires the Province and BRFN to work together to develop land management processes in BRFN territory. As part of this initial agreement, a number of forestry and oil and gas projects which were permitted or authorized prior to the Blueberry River decision and where activities had not started, including some held by Canfor, will be allowed to proceed. However, certain other previously approved authorizations, which relate to areas of high cultural importance, will not proceed without further negotiation and agreement by the Province with BRFN, including some held by Canfor but which are not material to its current operations. Negotiations between the Province of BC and BRFN are now focused on establishing a process that assesses and manages the impacts of future industrial development activities, including new permits and authorizations, on BRFN's Treaty rights. The timing and outcome of these negotiations and their potential impacts on activities in the Treaty 8 area are not presently known.

As a result, the specific impact of the Blueberry River decision on timber supply from Crown lands and on Canfor's tenure and operations in the Treaty 8 area are unknown at this time, especially as they pertain to Canfor's current timber supply and operational activities on the traditional territory of BRFN. As well, Canfor does not know if the decision will lead to changes in BC or federal laws or policies which may affect its forestry operations. However, there is the potential for adverse timber supply and operational implications associated with the outcome of the ongoing negotiations between the Province of BC and BRFN. As these negotiations and issues relating to Indigenous rights and title develop, Canfor will continue to engage and cooperate with Indigenous Nations and Government to foster good relationships and seek to minimize risks to Canfor's tenures and operational activities.

Other

In the third quarter of 2021, there have been no adverse impacts of COVID-19 on the Company. Please see the Company's annual disclosures referenced above for further information.

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

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 1,676.6**	$ 2,495.2	$ 1,941.8	$ 1,618.0	$ 1,550.4	$ 1,115.3	$ 1,170.7	$ 1,105.2
Operating income (loss)	**$ 331.0**	$ 1,041.3	$ 602.6	$ 419.6	$ 299.6	$ 96.9	$ (88.8)	$ (59.6)
Net income (loss)	**$ 256.8**	$ 784.6	$ 452.9	$ 346.7	$ 216.0	$ 62.4	$ (65.2)	$ (46.1)
Shareholder net income (loss)	**$ 210.0**	$ 726.9	$ 427.8	$ 335.6	$ 218.1	$ 60.7	$ (70.0)	$ (39.1)
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ 1.68**	$ 5.81	$ 3.42	$ 2.68	$ 1.74	$ 0.48	$ (0.56)	$ (0.31)
Book value[22]	**$ 28.23**	$ 26.26	$ 20.64	$ 17.63	$ 15.04	$ 13.51	$ 13.04	$ 13.14
Statistics								
Lumber shipments (MMfbm)[23]	**1,318**	1,540	1,449	1,560	1,371	1,154	1,251	1,224
Pulp shipments (000 mt)	**241**	285	265	258	249	248	290	267
Average exchange rate – US$/Cdn$	**$ 0.794**	$ 0.814	$ 0.790	$ 0.767	$ 0.751	$ 0.722	$ 0.744	$ 0.758
Average exchange rate – SEK/Cdn$	**6.865**	6.851	6.628	6.608	6.650	6.983	7.203	7.281
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 494**	$ 1,342	$ 972	$ 700	$ 768	$ 357	$ 399	$ 380
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 533**	$ 1,163	$ 1,160	$ 777	$ 782	$ 463	$ 386	$ 406
Average European indicative lumber price in SEK[24]	**8,330**	6,101	4,572	4,115	3,414	3,254	3,352	3,540
Average NBSK pulp list price delivered to China (US$)[25]	**$ 832**	$ 962	$ 883	$ 637	$ 572	$ 572	$ 573	$ 563

[22] 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.

[23] Canfor-produced lumber, including lumber purchased for remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

[24] European indicative lumber price is an internally generated benchmark based on delivered price to the largest continental market.

[25] Effective January 1, 2020, all RISI China market pricing has changed from "Delivered to China – Effective list price" to "Delivered to China – Net price" as distributed through Fastmarkets RISI.

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 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Shareholder net income (loss), as reported	**$ 210.0**	$ 726.9	$ 427.8	$ 335.6	$ 218.1	$ 60.7	$ (70.0)	$ (39.1)
Foreign exchange (gain) loss on term debt	**$ 1.5**	$ (5.7)	$ (2.6)	$ (11.7)	$ (1.7)	$ (5.2)	$ 15.0	$ (4.2)
(Gain) loss on derivative financial instruments	**$ (1.2)**	$ -	$ 9.0	$ (2.2)	$ 5.3	$ 2.9	$ (2.4)	$ 0.2
Restructuring, mill closure and severance costs, net	**$ -**	$ -	$ -	$ -	$ -	$ 10.5	$ 0.7	$ 2.4
Net impact of above items	**$ 0.3**	$ (5.7)	$ 6.4	$ (13.9)	$ 3.6	$ 8.2	$ 13.3	$ (1.6)
Adjusted shareholder net income (loss)[26]	**$ 210.3**	$ 721.2	$ 434.2	$ 321.7	$ 221.7	$ 68.9	$ (56.7)	$ (40.7)
Shareholder net income (loss) per share (EPS), as reported	**$ 1.68**	$ 5.81	$ 3.42	$ 2.68	$ 1.74	$ 0.48	$ (0.56)	$ (0.31)
Net impact of above items per share	**$ 0.01**	$ (0.05)	$ 0.05	$ (0.11)	$ 0.03	$ 0.07	$ 0.11	$ (0.01)
Adjusted net income (loss) per share[26]	**$ 1.69**	$ 5.76	$ 3.47	$ 2.57	$ 1.77	$ 0.55	$ (0.45)	$ (0.32)

[26] Effective Q1 2021, shareholder net income (loss) and shareholder net income (loss) per share were no longer adjusted for the after-tax impact of duty deposits, net of duties recoverably, or foreign exchange on duty deposits recoverable. Prior periods have been restated to reflect this change.

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at September 30, 2021**		As at December 31, 2020
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**1,460.6**	$	419.2
Accounts receivable - Trade		**477.5**		359.4
- Other		**66.7**		73.3
Inventories (Note 3)		**1,027.3**		839.9
Prepaid expenses and other		**121.9**		101.4
Total current assets		**3,154.0**		1,793.2
Property, plant and equipment		**1,937.5**		1,976.1
Right-of-use assets		**66.7**		79.3
Timber licenses		**420.7**		431.3
Goodwill and other intangible assets		**522.2**		543.5
Long-term investments and other (Note 4)		**264.9**		277.9
Deferred income taxes, net		**1.7**		7.5
Total assets	**$**	**6,367.7**	$	5,108.8
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**765.6**	$	667.7
Operating loans (Note 5(a))		**15.9**		12.3
Current portion of deferred reforestation obligations		**52.9**		52.9
Current portion of term debt (Note 5(b))		**58.8**		13.9
Other current liabilities (Note 13(b))		**-**		38.6
Current portion of lease obligations		**22.5**		24.1
Income tax payable		**284.6**		38.9
Total current liabilities		**1,200.3**		848.4
Term debt (Note 5(b))		**195.0**		662.9
Retirement benefit obligations (Note 6)		**214.7**		233.4
Lease obligations		**49.7**		60.5
Deferred reforestation obligations		**50.8**		61.8
Other long-term liabilities		**32.7**		35.0
Put liability (Note 7)		**174.5**		170.0
Deferred income taxes, net		**392.8**		403.1
Total liabilities	**$**	**2,310.5**	$	2,475.1
EQUITY				
Share capital	**$**	**982.2**	$	987.9
Contributed surplus and other equity		**(143.8)**		(127.4)
Retained earnings		**2,603.9**		1,227.3
Accumulated other comprehensive income		**72.3**		119.7
Total equity attributable to equity shareholders of the Company		**3,514.6**		2,207.5
Non-controlling interests		**542.6**		426.2
Total equity	**$**	**4,057.2**	$	2,633.7
Total liabilities and equity	**$**	**6,367.7**	$	5,108.8

Commitments and Contingencies (Note 15)

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

APPROVED BY THE BOARD

"R.S. Smith" *"The Hon. J.R. Baird"*

Director, R.S. Smith Director, The Hon. J.R. Baird

Canfor Corporation
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended September 30, **2021**	2020	9 months ended September 30, **2021**	2020
Sales	**$ 1,676.6**	$ 1,550.4	**$ 6,113.6**	$ 3,836.4
Costs and expenses				
Manufacturing and product costs (Note 8)	**1,018.9**	907.0	**3,114.7**	2,583.9
Freight and other distribution costs	**158.7**	165.5	**536.9**	464.6
Countervailing and anti-dumping duty expense, net (Note 14)	**38.4**	50.7	**101.5**	114.3
Amortization	**94.4**	93.5	**281.8**	280.5
Selling and administration costs	**35.2**	34.1	**103.8**	85.4
	1,345.6	1,250.8	**4,138.7**	3,528.7
Operating income	**331.0**	299.6	**1,974.9**	307.7
Finance expense, net	**(6.0)**	(11.2)	**(19.9)**	(40.3)
Foreign exchange gain (loss) on term debt	**(3.0)**	2.0	**6.6**	(9.3)
Foreign exchange gain (loss) on duties recoverable, net	**4.1**	(0.9)	**(1.7)**	1.0
Gain (loss) on derivative financial instruments (Note 7)	**1.1**	(7.9)	**(11.5)**	(8.4)
Other income, net	**7.2**	5.9	**21.7**	17.4
Net income before income taxes	**334.4**	287.5	**1,970.1**	268.1
Income tax expense (Note 9)	**(77.6)**	(71.5)	**(475.8)**	(54.9)
Net income	**$ 256.8**	$ 216.0	**$ 1,494.3**	$ 213.2
Net income attributable to:				
Equity shareholders of the Company	**$ 210.0**	$ 218.1	**$ 1,364.7**	$ 208.8
Non-controlling interests	**46.8**	(2.1)	**129.6**	4.4
Net income	**$ 256.8**	$ 216.0	**$ 1,494.3**	$ 213.2
Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 10)	**$ 1.68**	$ 1.74	**$ 10.91**	$ 1.67

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, **2021**	3 months ended September 30, 2020	9 months ended September 30, **2021**	9 months ended September 30, 2020
Net income	**$ 256.8**	$ 216.0	**$ 1,494.3**	$ 213.2
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to net income:				
Defined benefit plan actuarial gains (losses), net (Note 6)	**12.4**	(17.9)	**37.0**	(26.9)
Income tax recovery (expense) on defined benefit plan actuarial gains (losses), net (Note 9)	**(3.3)**	4.9	**(10.0)**	7.3
	9.1	(13.0)	**27.0**	(19.6)
Items that may be reclassified subsequently to net income:				
Foreign exchange translation of foreign operations, net of tax	**30.6**	(12.1)	**(47.4)**	56.1
Other comprehensive income (loss), net of tax	**39.7**	(25.1)	**(20.4)**	36.5
Total comprehensive income	**$ 296.5**	$ 190.9	**$ 1,473.9**	$ 249.7
Total comprehensive income attributable to:				
Equity shareholders of the Company	**$ 249.3**	$ 194.3	**$ 1,342.7**	$ 247.0
Non-controlling interests	**47.2**	(3.4)	**131.2**	2.7
Total comprehensive income	**$ 296.5**	$ 190.9	**$ 1,473.9**	$ 249.7

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, **2021**	3 months ended September 30, 2020	9 months ended September 30, **2021**	9 months ended September 30, 2020
Share capital				
Balance at beginning of period	**$ 985.4**	$ 987.9	**$ 987.9**	$ 987.9
Share purchases (Note 10)	**(3.2)**	-	**(5.7)**	-
Balance at end of period	**$ 982.2**	$ 987.9	**$ 982.2**	$ 987.9
Contributed surplus and other equity				
Balance at beginning of period	**$ (139.7)**	$ (89.2)	**$ (127.4)**	$ (82.8)
Put liability (Note 7)	**(4.1)**	(2.9)	**(16.4)**	(9.3)
Balance at end of period	**$ (143.8)**	$ (92.1)	**$ (143.8)**	$ (92.1)
Retained earnings				
Balance at beginning of period	**$ 2,392.7**	$ 658.8	**$ 1,227.3**	$ 674.3
Net income attributable to equity shareholders of the Company	**210.0**	218.1	**1,364.7**	208.8
Defined benefit plan actuarial gains (losses), net of tax	**8.7**	(11.7)	**25.4**	(17.9)
Share purchases (Note 10)	**(7.5)**	-	**(13.5)**	-
Balance at end of period	**$ 2,603.9**	$ 865.2	**$ 2,603.9**	$ 865.2
Accumulated other comprehensive income				
Balance at beginning of period	**$ 41.7**	$ 134.1	**$ 119.7**	$ 65.9
Foreign exchange translation of foreign operations, net of tax	**30.6**	(12.1)	**(47.4)**	56.1
Balance at end of period	**$ 72.3**	$ 122.0	**$ 72.3**	$ 122.0
Total equity attributable to equity shareholders of the Company	**$ 3,514.6**	$ 1,883.0	**$ 3,514.6**	$ 1,883.0
Non-controlling interests				
Balance at beginning of period	**$ 499.9**	$ 428.0	**$ 426.2**	$ 423.6
Net income (loss) attributable to non-controlling interests	**46.8**	(2.1)	**129.6**	4.4
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of tax	**0.4**	(1.3)	**1.6**	(1.7)
Distributions to non-controlling interests	**(4.5)**	(7.0)	**(14.8)**	(8.7)
Balance at end of period	**$ 542.6**	$ 417.6	**$ 542.6**	$ 417.6
Total equity	**$ 4,057.2**	$ 2,300.6	**$ 4,057.2**	$ 2,300.6

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, 2021	3 months ended September 30, 2020	9 months ended September 30, 2021	9 months ended September 30, 2020
Cash generated from (used in):				
Operating activities				
Net income	**$ 256.8**	$ 216.0	**$ 1,494.3**	$ 213.2
Items not affecting cash:				
Amortization	**94.4**	93.5	**281.8**	280.5
Income tax expense	**77.6**	71.5	**475.8**	54.9
Change in long-term portion of deferred reforestation obligations, net	**(23.2)**	(28.4)	**(11.2)**	(4.6)
Foreign exchange (gain) loss on term debt	**3.0**	(2.0)	**(6.6)**	9.3
Foreign exchange (gain) loss on duties recoverable, net	**(4.1)**	0.9	**1.7**	(1.0)
Adjustment to accrued duties (Note 14)	**27.0**	(13.5)	**39.4**	(11.8)
Changes in mark-to-market value of derivative financial instruments (Note 7)	**0.9**	(0.7)	**0.1**	1.3
Employee future benefits expense	**2.6**	2.8	**8.5**	8.0
Finance expense, net	**6.0**	11.2	**19.9**	40.3
Other, net	**(4.4)**	(1.6)	**(12.4)**	10.7
Defined benefit plan contributions, net	**(3.3)**	(2.0)	**(11.3)**	(11.1)
Income taxes received (paid), net	**(43.7)**	(2.3)	**(225.5)**	69.0
	389.6	345.4	**2,054.5**	658.7
Net change in non-cash working capital (Note 11)	**30.8**	77.3	**(235.4)**	54.8
	420.4	422.7	**1,819.1**	713.5
Financing activities				
Operating loan drawings (repayments), net (Note 5(a))	**(3.1)**	(286.5)	**4.8**	(368.7)
Proceeds from (repayments of) term debt, net (Note 5(b))	**(0.3)**	(0.1)	**(414.9)**	0.1
Payment of lease obligations	**(6.6)**	(6.4)	**(19.3)**	(17.9)
Finance expenses paid	**(3.5)**	(8.8)	**(17.4)**	(35.8)
Share purchases (Note 10)	**(10.9)**	-	**(18.9)**	-
Cash distributions paid to non-controlling interests	**(4.5)**	(7.0)	**(14.8)**	(8.7)
	(28.9)	(308.8)	**(480.5)**	(431.0)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(128.5)**	(23.1)	**(252.9)**	(107.6)
Consideration paid for Bergs sawmill assets (Note 13(a))	**-**	(58.7)	**-**	(58.7)
Proceeds from sale of Vavenby forest tenure	**-**	-	**-**	56.5
Phased acquisition of Elliott (Note 13(b))	**-**	-	**(38.2)**	(46.3)
Other, net	**2.3**	0.4	**(10.1)**	4.7
	(126.2)	(81.4)	**(301.2)**	(151.4)
Foreign exchange gain (loss) on cash and cash equivalents	**10.8**	(1.8)	**4.0**	1.3
Increase in cash and cash equivalents*	**276.1**	30.7	**1,041.4**	132.4
Cash and cash equivalents at beginning of period*	**1,184.5**	161.8	**419.2**	60.1
Cash and cash equivalents at end of period*	**$ 1,460.6**	$ 192.5	**$ 1,460.6**	$ 192.5

*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"), which is 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, 2021.

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, 2020, available at www.canfor.com or www.sedar.com.

Certain comparative amounts for the prior period have been reclassified to conform to the current period's presentation.

These financial statements were authorized for issue by the Company's Board of Directors on October 26, 2021.

Change in Accounting Policy

Effective January 1, 2021, the Company has adopted amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures,* and IFRS 16 *Leases, Interest Rate Benchmark Reform – Phase 2* ("Phase 2") as issued in August 2020. Phase 2 of the amendments required financial instruments measured using amortized cost to be adjusted to reflect changes to the effective interest rate. For the Company, the adoption of Phase 2 is applicable to its Canadian-dollar denominated floating rate term debt and its committed operating loan facilities, excluding Vida, which have yet to transition to an alternative benchmark interest rate at September 30, 2021. As a result, there was no impact to the Company's financial results upon adoption of Phase 2.

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, 2021**	As at December 31, 2020
Logs	**$ 278.1**	$ 196.9
Finished products	**550.0**	458.2
Residual fibre	**69.3**	61.2
Materials and supplies	**129.9**	123.6
	$ 1,027.3	$ 839.9

The above inventory balances are stated at the lower of cost and net realizable value. For the three and nine months ended September 30, 2021, no inventory valuation adjustment was recognized for the lumber segment (three months ended September 30, 2020 – no adjustment; nine months ended September 30, 2020 – $17.6 million write-down recovery). No provision for logs and lumber has been recognized at September 30, 2021 (December 31, 2020 – no provision).

For the three months ended September 30, 2021, a $3.5 million inventory write-down expense was recognized for the pulp and paper segment (nine months ended September 30, 2021 – $1.3 million net write-down expense). For the three months ended September 30, 2020, a $3.0 million inventory write-down recovery was recognized (nine months ended September 30, 2020 – $5.5 million net write-down recovery). At September 30, 2021, an inventory provision of $3.5 million has been recognized for finished pulp and raw materials (December 31, 2020 – provision of $2.2 million).

4. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)		**As at September 30, 2021**		As at December 31, 2020
Duty deposits recoverable, net (Note 14)	**$**	**160.6**	$	199.9
Other deposits, loans, advances and long-term assets		**45.7**		50.5
Other investments		**32.3**		18.0
Retirement benefit surplus		**26.3**		9.5
	$	**264.9**	$	277.9

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, 2021, including interest receivable of $21.8 million (December 31, 2020 – $20.0 million) (Note 14).

5. Operating Loans and Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)		**As at September 30, 2021**		As at December 31, 2020
Canfor (excluding Vida and CPPI)				
Available operating loans:				
Operating loan facility	**$**	**775.0**	$	550.0
Revolving credit facility		**189.8**		200.0
Facilities for letters of credit		**70.0**		70.0
Total operating loan facilities		**1,034.8**		820.0
Letters of credit		**(67.8)**		(67.2)
Total available operating loan facilities - Canfor	**$**	**967.0**	$	752.8
Vida				
Available operating loans:				
Operating loan facilities	**$**	**73.5**	$	78.8
Overdraft facilities		**30.2**		22.2
Total operating loan facilities		**103.7**		101.0
Operating loan facilities drawn		**(0.4)**		(0.3)
Overdraft facilities drawn		**(15.5)**		(12.0)
Total available operating loan facilities - Vida	**$**	**87.8**	$	88.7
CPPI				
Available operating loans:				
Operating loan facility	**$**	**110.0**	$	110.0
Letters of credit		**(12.9)**		(12.9)
Total available operating loan facility - CPPI	**$**	**97.1**	$	97.1
Consolidated:				
Total operating loan facilities	**$**	**1,248.5**	$	1,031.0
Total operating loan facilities drawn	**$**	**(15.9)**	$	(12.3)
Total letters of credit	**$**	**(80.7)**	$	(80.1)
Total available operating loan facilities	**$**	**1,151.9**	$	938.6

On March 26, 2021, Canfor (excluding Vida and CPPI) repaid its Canadian-dollar denominated floating rate term debt of $225.0 million (Note 5(b)) and in turn, increased the principal of its committed operating loan facility by $225.0 million, to $775.0 million, with no changes to the existing terms. In addition, on March 26, 2021, Canfor (excluding Vida and CPPI) cancelled its $200.0 million revolving credit facility.

On June 28, 2021, Canfor (excluding Vida and CPPI) repaid $185.0 million (US$150.0 million) of its US$200.0 million US-dollar denominated floating rate term debt (Note 5(b)) and in turn, added a $189.8 million (US$150.0 million) committed revolving credit facility, which was undrawn as at September 30, 2021. On June 28, 2023, any amounts drawn on the committed revolving credit facility will be converted to US-dollar denominated floating rate term debt, with a maturity date of June 28, 2031.

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

Canfor (excluding Vida and CPPI) has a separate facility to cover letters of credit. At September 30, 2021, $65.4 million of letters of credit outstanding are covered under this facility with the balance of $2.4 million covered under Canfor's general committed operating loan facility.

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 1.2% to 5.0%. Vida also has separate overdraft facilities with fixed interest rates ranging from 1.2% to 3.4%.

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

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, 2021, 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, 2021**	As at December 31, 2020
Canfor (excluding Vida and CPPI)		
CAD$225.0 million, floating interest, repaid on March 26, 2021 (Note 5(a))	**$ -**	$ 225.0
US$50.0 million, floating interest, repayable on June 28, 2031 (Note 5(a))	**63.3**	254.7
US$100.0 million, fixed interest of 4.4%, repayable in three equal tranches on October 2, 2023, 2024 and 2025	**126.5**	127.3
Other[1]	**4.7**	5.0
Vida		
SEK 55.0 million, floating interest, repayable in instalments up to December 31, 2021[2]	**8.0**	12.4
SEK 3.5 million, floating interest, repayable April 30, 2022	**0.5**	1.2
SEK 1.6 million, floating interest, repayable August 31, 2024	**0.2**	0.3
SEK 1.6 million, floating interest, repayable April 30, 2022	**0.2**	0.4
AUD 2.4 million, floating interest, repayable between January 23, 2022 and July 22, 2030	**0.4**	0.5
CPPI		
CAD $50.0 million, floating interest, repayable September 30, 2022	**50.0**	50.0
Term debt at end of period	**$ 253.8**	$ 676.8
Less: Current portion	**(58.8)**	(13.9)
Long-term portion	**$ 195.0**	$ 662.9

[1] Renewed annually.

On June 28, 2021, $185.0 million (US$150.0 million) of Canfor's US$200.0 million US-dollar denominated floating rate term debt (excluding Vida and CPPI) was repaid, with the maturity date of the remaining $63.3 million (US$50.0 million) extended from January 2, 2027 to June 28, 2031.

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, 2021, 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, 2021, the fair value of the Company's term debt is $259.0 million (December 31, 2020 – $685.6 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, 2021, actuarial gains of $12.4 million (before tax) were recognized in other comprehensive income (loss) in relation to the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), reflecting a higher than anticipated return on plan assets. For the nine months ended September 30, 2021, actuarial gains of $37.0 million (before tax) were recognized in other comprehensive income (loss).

For the three months ended September 30, 2020, actuarial losses of $17.9 million (before tax) were recognized in other comprehensive income (loss), reflecting a lower discount rate used to value the net defined benefit plans, offset in part by a higher than anticipated return on plan assets. For the nine months ended September 30, 2020, actuarial losses of $26.9 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, 2021	**3.0%**	**3.0%**
June 30, 2021	3.0%	3.0%
December 31, 2020	2.7%	2.7%
September 30, 2020	2.7%	2.7%
June 30, 2020	3.0%	3.0%
December 31, 2019	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 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, 2021**	As at December 31, 2020
Financial assets measured at fair value			
Investments	Level 1	**$ 31.1**	$ 17.3
Derivative financial instruments	Level 2	**0.8**	1.1
Duty deposits recoverable, net (Note 4)	Level 3	**160.6**	199.9
		$ 192.5	$ 218.3
Financial liabilities measured at fair value			
Derivative financial instruments	Level 2	**$ 0.1**	$ 0.3
Put liability	Level 3	**174.5**	170.0
		$ 174.6	$ 170.3

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

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2021**	3 months ended September 30, 2020	9 months ended September 30, **2021**	9 months ended September 30, 2020
Interest rate swaps	**$ -**	$ -	**$ -**	$ (0.4)
Lumber futures	**1.3**	(5.2)	**(10.0)**	(6.2)
Foreign exchange forward contracts	**(0.2)**	(2.7)	**(1.5)**	(1.8)
Gain (loss) on derivative financial instruments	**$ 1.1**	$ (7.9)	**$ (11.5)**	$ (8.4)

During the three and nine months ended September 30, 2021, losses of $4.1 million and $16.4 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, 2020 – losses of $2.9 million and $9.3 million, respectively). As a result of this remeasurement, combined with a foreign exchange loss of $0.3 million for the three months ended September 30, 2021, and a foreign exchange gain of $11.9 million for the nine months ended September 30, 2021 (three and nine months ended September 30, 2020 – losses of $0.3 million and $5.9 million, respectively), the balance of the put liability was $174.5 million at September 30, 2021 (December 31, 2020 – $170.0 million).

8. Arbios Biotech

For the three and nine months ended September 30, 2021, Canfor has contributed $2.5 million and $4.3 million, respectively, to the Arbios Biotech joint venture (three and nine months ended September 30, 2020 – $1.5 million and $4.0 million, respectively), recognized as research and development related expenses within 'Manufacturing and product costs' in the condensed consolidated statement of income.

9. Income Taxes

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

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2021**	3 months ended September 30, 2020	9 months ended September 30, **2021**	9 months ended September 30, 2020
Current	**$ (65.2)**	$ (60.0)	**$ (483.5)**	$ (34.5)
Deferred	**(12.4)**	(11.5)	**7.7**	(20.4)
Income tax expense	**$ (77.6)**	$ (71.5)	**$ (475.8)**	$ (54.9)

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, **2021**	3 months ended September 30, 2020	9 months ended September 30, **2021**	9 months ended September 30, 2020
Income tax expense at statutory rate of 27% (2020 – 27%)	**$ (90.3)**	$ (77.6)	**$ (531.9)**	$ (72.4)
Add (deduct):				
Non-taxable income (loss) related to non-controlling interests	**-**	0.1	**0.2**	(0.2)
Entities with different income tax rates and other tax adjustments	**13.1**	5.6	**54.9**	18.7
Permanent difference from capital gains and losses and other non-deductible items	**(0.4)**	0.4	**1.0**	(1.0)
Income tax expense	**$ (77.6)**	$ (71.5)	**$ (475.8)**	$ (54.9)

In addition to the amounts recorded to net income, a tax expense of $3.3 million was recorded to other comprehensive income (loss) in relation to actuarial gains, net, on the defined benefit plans for the three months ended September 30, 2021 (three months ended September 30, 2020 – recovery of $4.9 million in relation to actuarial losses, net). For the nine months ended September 30, 2021, a tax expense of $10.0 million was recorded to other comprehensive income (loss) in relation to actuarial gains, net, on the defined benefit plans (nine months ended September 30, 2020 – recovery of $7.3 million in relation to actuarial losses, net).

10. Earnings Per Common Share and Normal Course Issuer Bid

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

	3 months ended September 30, **2021**	3 months ended September 30, 2020	9 months ended September 30, **2021**	9 months ended September 30, 2020
Weighted average number of common shares	**124,740,288**	125,219,400	**125,048,005**	125,219,400

On June 16, 2021, the Company re-instituted its normal course issuer bid whereby it can purchase for cancellation up to 6,260,970 common shares, or approximately 5% of its issued and outstanding common shares as at June 10, 2021. The normal course issuer bid is set to expire on June 15, 2022.

During the three months ended September 30, 2021, the Company purchased 415,000 common shares for $10.7 million (an average of $25.78 per common share), of which $10.4 million was paid during the quarter. An additional $0.5 million was paid during the three months ended September 30, 2021, in relation to shares purchased in the prior quarter. During the nine months ended September 30, 2021, the Company purchased 725,800 common shares for $19.2 million (an average of $26.45 per common share), of which $18.9 million was paid during the period.

As at September 30, 2021 and October 26, 2021, based on the trade date, there were 124,493,600 common shares of the Company outstanding and Canfor's ownership interest in CPPI and Vida was 54.8% and 70.0%, respectively.

11. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2021	3 months ended September 30, 2020	9 months ended September 30, 2021	9 months ended September 30, 2020
Accounts receivable	**$ 86.1**	$ (34.9)	**$ (124.6)**	$ (76.9)
Inventories	**(130.7)**	25.1	**(202.8)**	95.0
Prepaid expenses and other	**10.9**	15.7	**(26.9)**	(9.4)
Accounts payable and accrued liabilities and current portion of deferred reforestation obligations	**64.5**	71.4	**118.9**	46.1
Net change in non-cash working capital	**$ 30.8**	$ 77.3	**$ (235.4)**	$ 54.8

12. 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, 2021					
Sales from contracts with customers	**$ 1,377.9**	**$ 298.7**	**$ -**	**$ -**	**$ 1,676.6**
Sales to other segments	**51.7**	**0.2**	**-**	**(51.9)**	**-**
Operating income (loss)	**326.1**	**15.8**	**(10.9)**	**-**	**331.0**
Amortization	**72.0**	**22.0**	**0.4**	**-**	**94.4**
Capital expenditures[2]	**112.1**	**14.3**	**2.1**	**-**	**128.5**
3 months ended September 30, 2020					
Sales from contracts with customers	$ 1,324.1	$ 226.3	$ -	$ -	$ 1,550.4
Sales to other segments	69.6	0.1	-	(69.7)	-
Operating income (loss)	336.7	(27.6)	(9.5)	-	299.6
Amortization	74.3	18.9	0.3	-	93.5
Capital expenditures[2]	14.7	8.1	0.3	-	23.1
9 months ended September 30, 2021					
Sales from contracts with customers	**$ 5,218.5**	**$ 895.1**	**$ -**	**$ -**	**$ 6,113.6**
Sales to other segments	**155.3**	**0.5**	**-**	**(155.8)**	**-**
Operating income (loss)	**1,933.3**	**71.7**	**(30.1)**	**-**	**1,974.9**
Amortization	**216.1**	**64.7**	**1.0**	**-**	**281.8**
Capital expenditures[2]	**186.4**	**62.7**	**3.8**	**-**	**252.9**
Identifiable assets	**3,705.8**	**939.2**	**1,722.7**	**-**	**6,367.7**
9 months ended September 30, 2020					
Sales from contracts with customers	$ 3,083.9	$ 752.5	$ -	$ -	$ 3,836.4
Sales to other segments	178.8	0.2	-	(179.0)	-
Operating income (loss)	355.0	(27.8)	(19.5)	-	307.7
Amortization	219.5	60.1	0.9	-	280.5
Capital expenditures[2]	67.3	39.1	1.2	-	107.6
Identifiable assets	3,410.4	849.8	295.6	-	4,555.8

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

Geographic information

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

(millions of Canadian dollars, unaudited)	3 months ended September 30,				9 months ended September 30,			
		2021		2020		**2021**		2020
Sales by location of customer								
Canada	**7%**	**$ 114.3**	10%	$ 146.6	**9%**	**$ 577.6**	10%	$ 367.8
United States	**47%**	**793.2**	63%	979.6	**55%**	**3,363.2**	55%	2,119.8
Europe	**20%**	**331.6**	12%	190.9	**16%**	**961.2**	14%	554.6
Asia	**23%**	**391.4**	14%	212.2	**18%**	**1,083.5**	18%	696.2
Other	**3%**	**46.1**	1%	21.1	**2%**	**128.1**	3%	98.0
	100%	**$ 1,676.6**	100%	$ 1,550.4	**100%**	**$ 6,113.6**	100%	$ 3,836.4

13. Acquisitions

(a) Bergs Timber Production AB Sawmill Assets

On September 1, 2020, the Company's 70% owned subsidiary, Vida, completed the purchase of sawmill assets from Bergs Timber Production AB ("Bergs") for $45.6 million (303 million SEK), plus working capital and other adjustments of $13.1 million (87 million SEK). The sawmills (three operating and one idled) are located in southern Sweden and add 215 million board feet of spruce and pine products to Vida's annual capacity. The acquisition of 100% of the sawmill assets was accounted for as a business combination under IFRS 3 *Business Combinations* ("IFRS 3") and is included in Canfor's lumber segment.

The following table summarizes the final recognized amounts of identifiable net assets acquired by Vida (at 100%) at the acquisition date (unchanged from preliminary amounts):

(millions of Canadian dollars, unaudited)	
Property, plant and equipment	**$ 43.1**
Right-of-use assets	**2.5**
Non-cash working capital, net (including inventory)	**14.6**
Deferred tax liability on fair value adjustments	**(3.2)**
Total net identifiable assets	**$ 57.0**
Goodwill	**1.7**
Total consideration	**$ 58.7**

Property, plant and equipment required significant fair value adjustments for purchase price accounting. Internal Management specialists, having the appropriate experience, determined the fair value of property, plant and equipment using the market comparison and cost technique, considering market prices for similar items when they are available, and depreciated replacement cost when appropriate.

Goodwill of $1.7 million has been recognized as part of the purchase, calculated as the excess of consideration over the fair value of the estimated identifiable assets and liabilities assumed and is attributable to expected future income and cash-flow projections and further diversification of Canfor's current product offering in Europe. Goodwill is not deductible for tax purposes.

(b) Elliott Sawmilling Co., LLC

On May 31, 2019, the Company completed the first of a two-phase purchase of Elliott Sawmilling Co., LLC ("Elliott") with an aggregate purchase price of US$110.5 million (paid in three instalments), plus a net working capital adjustment of $4.1 million (US$3.1 million). On May 31, 2020, Canfor completed the second phase (51%) purchase for $50.4 million (US$37.0 million, the second instalment), bringing its ownership interest in Elliott to 100%, and on February 19, 2021, the Company paid $38.2 million (US$30.3 million, the third instalment) to settle the remaining consideration payable in connection with the purchase of Elliott.

14. 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, with cash deposits posted at an ADD rate of 7.28% and CVD rate of 13.24% (combined cash deposit rate of 20.52%) from 2017 to November 2020, and at a combined cash deposit rate of 4.62% thereafter. As at September 30, 2021, Canfor has paid cumulative cash deposits of $656.1 million.

Canfor and other Canadian forest product companies, the Federal Government and Canadian Provincial Governments continue to categorically deny the US allegations and strongly disagree with the current countervailing and anti-dumping determinations made by the DOC. Canada has proceeded with legal challenges under the United States-Mexico-Canada Agreement and through the World Trade Organization, where Canadian litigation has proven successful in the past.

On January 1, 2021, the Company moved into the fourth period of review ("POR4"), which is based on sales and cost data in 2021. Consistent with prior periods of review, the Company was unable to estimate an applicable CVD rate separate from the DOC's cash deposit rate. As a result, CVD was expensed at a rate of 2.63% for the three and nine months ended September 30, 2021 in POR4, while ADD was expensed at an estimated rate of 5.0%, resulting in a combined CVD and ADD accrual rate of 7.63% (versus the combined cash deposit rate of 4.62%, comprised of a CVD rate of 2.63% and ADD rate of 1.99%) for the quarter. The estimated ADD accrual rate for POR4 increased from an estimated rate of 3.0% at June 30, 2021, largely driven by a sharp decline in lumber pricing in the third quarter of 2021, resulting in an incremental ADD expense of $20.4 million (US$16.4 million) recognized during the three months ended September 30, 2021, attributable to prior quarters. Despite cash deposits being made in 2021 at rates determined by the DOC (4.62%), the final liability associated with duties is not determined until the completion of administrative reviews performed by the DOC.

In May 2021, the DOC announced the preliminary results for the second period of review ("POR2"), which is based on sales and cost data in 2019. The Company's preliminary CVD cash deposit rate was determined to be 2.42% for 2019 (versus a cash deposit rate of 13.24%), while the preliminary ADD cash deposit rate was 18.62% (versus a cash deposit rate of 7.28% and estimated accrual rate of 16.00%). Upon finalization of these rates (currently anticipated in late November 2021), a net recovery is anticipated to be recognized in the Company's condensed consolidated financial statements to reflect the difference between the accrual rate of 29.24% and the final rates as established for POR2 (21.04% based on the preliminary determination). The net recovery is currently estimated at $38.7 million (US$30.6 million).

In addition, upon finalization of these rates, the Company's current combined cash deposit rate of 4.62% will be reset to the final rates as determined in the second period of review (21.04% based on the preliminary determination). This new cash deposit rate will apply to the Company's Canadian lumber shipments destined to the United States until completion of the administrative review for the third period of review (anticipated in the second half of 2022).

Summary

For accounting purposes, a net duty recoverable of $160.6 million is included on the Company's condensed consolidated balance sheet (Note 4) reflecting differences between the cash deposit rates and the Company's combined accrual rates for each period of review (first period of review: 4.62%, second period of review: 29.24%, third period of review: 18.24% and POR4: 7.63%), including interest.

For the three and nine months ended September 30, 2021, the Company recorded a net duty expense of $38.4 million and $101.5 million, respectively (three and nine months ended September 30, 2020 – net duty expense of $50.7 million and $114.3 million, respectively), comprised of cash deposits paid of $11.4 million and $62.1 million, respectively (three and nine months ended September 30, 2020 – cash deposits paid of $64.2 million and $126.1 million, respectively), and an additional expense of $27.0 million and $39.4 million, respectively (three and nine months ended September 30, 2020 – recovery of $13.5 million and $11.8 million, respectively), reflecting a higher combined accrual rate (7.63%) compared to the DOC's cash deposit rate (4.62%) for POR4 to date.

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

15. Commitments and Contingencies

(a) Coronavirus

On March 11, 2020, the World Health Organization declared the coronavirus ("COVID-19") outbreak a pandemic. During the first nine months of 2021, there have been no adverse impacts of COVID-19 on the Company. However, Management continues to closely monitor its effects on the Company's operating plan, liquidity, cash flows, and the valuation of its long-lived assets.

(b) Capital Commitments

On June 8, 2021, the Company announced its plans to construct a new sawmill near DeRidder, Louisiana. As at September 30, 2021, Canfor had made payments of $31.3 million (US$24.5 million) related to the construction of the sawmill, and had estimated contractual commitments of $176.0 million (US$139.1 million) remaining; $138.7 million (US$109.7 million) of the commitments are expected to be settled within one year and $37.3 million (US$29.4 million) of the commitments are expected to be settled within two years.