News Release

FOR IMMEDIATE RELEASE **FEBRUARY 28, 2023**

CANFOR ANNOUNCES 2022 AND FOURTH QUARTER OF 2022 RESULTS

Vancouver, B.C. – Canfor Corporation ("The Company" or "Canfor") (TSX: CFP) today reported its 2022 and fourth quarter of 2022 results[1]:

Overview

- 2022 adjusted operating income of $1.3 billion; adjusted shareholder net income of $880 million, or $7.15 per share
- Q4 2022 adjusted operating loss of $164 million; adjusted shareholder net loss of $127 million or $1.04 per share
- Significant weakness in lumber market demand in Q4 2022 led to a sharp deterioration in lumber pricing late in the year
- Q4 lumber production impacted by the continuation of reduced operating schedules in Western Canada; pulp production impacted by fibre shortages and challenging winter weather conditions
- After year end, announced restructuring of lumber and pulp operations in British Columbia to better align manufacturing capacity with available long-term fibre supply and create a stronger and more sustainable footprint

Financial Results

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

(millions of Canadian dollars, except per share amounts)	Q4 2022	Q3 2022	YTD 2022	Q4 2021	YTD 2021
Sales	**$ 1,373.3**	$ 1,666.4	**$ 7,426.7**	$ 1,571.3	$ 7,684.9
Reported operating income (loss) before amortization, asset write-downs and impairments	**$ (62.6)**	$ 211.5	**$ 1,609.9**	$ 321.7	$ 2,578.4
Reported operating income (loss)	**$ (308.0)**	$ 108.6	**$ 1,074.1**	$ (66.8)	$ 1,908.1
Adjusted operating income (loss) before amortization, asset write-downs and impairments[1]	**$ (57.0)**	$ 300.0	**$ 1,703.4**	$ 322.8	$ 2,580.8
Adjusted operating income (loss)[1]	**$ (163.8)**	$ 197.1	**$ 1,306.2**	$ 227.8	$ 2,204.0
Net income (loss)[2]	**$ (207.9)**	$ 87.4	**$ 787.3**	$ (23.1)	$ 1,341.6
Net income (loss) per share, basic and diluted[2]	**$ (1.70)**	$ 0.71	**$ 6.39**	$ (0.19)	$ 10.74
Adjusted net income (loss)[1,2]	**$ (126.8)**	$ 98.5	**$ 880.4**	$ 163.0	$ 1,530.2
Adjusted net income (loss) per share, basic and diluted[1,2]	**$ (1.04)**	$ 0.80	**$ 7.15**	$ 1.31	$ 12.25

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

2022 was another strong year for Canfor, with the strength in global lumber market fundamentals experienced late in 2021 continuing well into the current year. Significant lumber demand led by solid activity in both new home construction and the repair and remodel segment, encountered tight supply due to supply chain disruptions. The result was ongoing global pricing pressure and high benchmark lumber prices through the first part of the year. As the year progressed, rising interest rates and inflation put significant downward pressure on housing affordability and global lumber market demand, leading to a rapid decline in global lumber market pricing in the latter part of the year. In response, the Company implemented reduced operating schedules at its Western Canadian operations. The Company's strong earnings, however, reflect the continued benefit of its global diversification strategy which helped to moderate these challenges in British Columbia ("BC").

Early in 2023, after an extensive analysis of its pulp mill operating footprint and the long-term supply of economic residual fibre, Canfor Pulp made the decision to permanently close the pulp line at its Prince George Pulp and Paper Mill ("PG"). Similarly, in order to create a more sustainable operating footprint in BC and to better align manufacturing capacity with the available long-term fibre supply, the Company made the difficult decision to restructure its BC lumber operations by permanently closing its Chetwynd sawmill and pellet plant and temporarily closing its Houston sawmill for an extended period to facilitate a major redevelopment on the site. The Company intends to build a new, modern, globally competitive manufacturing facility that employs state of the art technology to produce high value products from the sustainable timber supply in that region. The Company is currently undertaking an evaluation of the availability of economic fibre and a thorough project financial analysis, and is targeting a final investment decision by the end of the second quarter of 2023.

Recognizing these permanent closures as well as the ongoing challenges to the business posed by fibre availability and costs, the Company recorded asset write-downs and impairments totaling $138.6 million in its results for the three and twelve months ended December 31, 2022.

Before taking account of adjusting items, largely comprised of the aforementioned asset write-down and impairment charges, the Company's operating income was $1,306.2 million for the current year (adjusted shareholder net income per share of $7.15), down $897.8 million compared to the record-high adjusted operating earnings of $2,204.0 million for the prior year (adjusted shareholder net income per share of $12.25). The Company reported operating income of $1,074.1 million for 2022, versus operating earnings of $1,908.1 million for 2021.

For the fourth quarter of 2022, the Company reported an operating loss of $308.0 million. After taking account of adjusting items, the Company's operating loss for the fourth quarter of 2022 was $163.8 million compared to an adjusted operating income of $197.1 million for the previous quarter, largely reflecting a material decline in both the lumber and pulp and paper segment results.

Commenting on the Company's 2022 and fourth quarter of 2022 results, Canfor's President and Chief Executive Officer, Don Kayne, said, "After a strong start to the year, unfavourable global lumber market conditions led to sharp pricing declines and temporary capacity reductions across our Western Canadian sawmills, which also disrupted the supply of fibre to our pulp mills. As a result, our lumber and pulp business both faced significant challenges in the fourth quarter which directly impacted our quarterly results. Early in 2023, we made the difficult but necessary decision to create a more sustainable operating footprint in BC. Our goal is to match mill capacity with the economically available fibre for harvest to enhance our ability to compete and to operate throughout the market cycles. This is what will ultimately create greater stability for our employees and communities, while ensuring we can continue to provide the high quality, low carbon products that are in demand by our customers around the world. We sincerely regret the impact these decisions have on our employees, their families, contractors, and the businesses that support our operations and the local community. We thank our employees for their hard work, resilience, and commitment to safety as we work together to navigate this very challenging environment."

Lumber Segment Highlights and Outlook

For the lumber segment, adjusted results decreased $295.6 million in the current quarter primarily reflecting a challenging period for the Company's Western Canadian operations. These results were principally driven by a significant decline in global lumber market prices, with the average North American Random Lengths Western Spruce/Pine/Fir ("SPF") 2x4 2&Btr price down US$170 per Mfbm, or 29%, quarter-over-quarter, the average Southern Yellow Pine ("SYP") East 2x4 #2 down US$271 per Mfbm, or 38%, and moderately lower market pricing in Europe. This material drop in global lumber pricing was combined with a 17% decline in North American shipment volumes and the continuation of production curtailments in Western Canada, which lowered SPF production by approximately 250 million board feet in the current period. These factors were partially offset by the benefit of higher production and shipments in Europe following the seasonal downtime taken in the prior quarter.

North American lumber market conditions remained under pressure through the fourth quarter of 2022, with supply continuing to exceed demand. Persistent inflationary pressures alongside rising interest rates continued to reduce housing affordability in the current period, which lowered residential construction activity, particularly for single-family units. Activity in the repair and remodeling sector also trended downwards in the current quarter principally driven by seasonal impacts, coupled with declining existing home sales.

Offshore lumber demand and prices in Asia continued to be negatively impacted by elevated global inventory levels combined with reduced consumption in the fourth quarter of 2022, particularly in China as a result of COVID-19 related lockdowns in that region through much of the current period. In Western Europe and Scandinavia, lumber demand and pricing declined due to an unseasonably high inventory build and weakness in both the home building and do-it-yourself sectors tied to high inflation and energy costs which lowered consumer spending.

Looking ahead, global lumber market conditions are anticipated to remain under pressure through the first quarter of 2023. High inflation and interest rates are projected to continue to weigh on housing affordability and slow down demand for new home construction, especially in the single-family sector. On the other hand, the repair and remodeling sector is anticipated to improve as existing homeowners look to "fix-up" in lieu of "moving-up" in a high interest rate environment. In the longer term, underlying global lumber market fundamentals are projected to be solid, principally reflecting strong demographic trends, consistent demand driven by an aging housing stock and low inventories of new homes available.

The weakness in offshore lumber demand in Asia that was experienced in the fourth quarter of 2022 is forecast to continue through the first quarter of 2023. However, this softness is anticipated to be mitigated in part by the introduction of government incentive packages in key Asian markets intended to revive economies in those regions. Lower lumber demand is also anticipated in Europe, driven for the most part by reduced activity in both the residential construction and do-it-yourself sectors.

Pulp and Paper Segment Highlights and Outlook

Results for the pulp and paper segment in the current quarter principally reflected modestly weaker global pulp market conditions, combined with the impact of material reductions in residual fibre supply and challenging winter weather conditions in BC, significantly impacting Canfor Pulp Products Inc.'s ("CPPI") operating performance, particularly at its Intercontinental ("Intercon") and Northwood Northern Bleached Softwood Kraft ("NBSK") ("Northwood") pulp mills. Pulp production in the current period also reflected ongoing downtime at CPPI's Taylor Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill ("Taylor"), which commenced in the first quarter of 2022 and continued through the balance of the year. As a result of a reduction in the long-term supply of fibre in the Peace region, CPPI does not see a path forward to restarting the Taylor mill at this time and is exploring alternative uses for the site.

Following the strong global pulp market conditions experienced mid-year, market fundamentals came under modest pressure in the current quarter, driven by a decline in demand and purchasing activity, particularly from Asian markets, as well as an uptick in global pulp market supply, primarily from Europe and South America. These factors were combined with the sustained effect of elevated global softwood pulp producer inventories which, at the end of December 2022, remained on the high end of the balanced range at 43 days of supply.

In recent weeks, global softwood kraft pulp market conditions have experienced a modest uptick as unplanned global supply outages, principally stemming from fibre-related downtime in Western Canada, has more than outweighed weak global macroeconomic conditions. Reflecting this favourable momentum, CPPI announced a US$30 per tonne increase to its NBSK pulp list price to China in February 2023 to US$970 per tonne. Looking forward, global softwood kraft pulp markets are projected to remain relatively stable through the balance of the first quarter of 2023, as persistent high global pulp inventory levels and additional hardwood pulp capacity predicted to come online in 2023, combine with steady Chinese demand. Notwithstanding the projected increased supply, global pulp pricing is anticipated to remain above historic average price levels in the short-term.

Refer to the Company's annual Management's Discussion and Analysis for further discussion on the Company's results for the fourth quarter of 2022 on page 32.

Additional Information and Conference Call

A conference call to discuss the fourth quarter's financial and operating results will be held on Wednesday, March 1, 2023 at 7:00 AM Pacific time. To participate in the call, please dial Toll-Free 1-888-390-0546. For instant replay access until March 15, 2023, please dial Toll-Free 1-888-390-0541 and enter participant pass code 110844#.

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 Financial Measures

Throughout this press release, reference is made to certain non-IFRS financial measures which are used to evaluate the Company's performance but are not generally accepted under IFRS and may not be directly comparable with similarly titled measures used by other companies.

The following table provides a reconciliation of these non-IFRS financial measures to figures reported in the Company's consolidated financial statements:

(millions of Canadian dollars)	Q4 2022	Q3 2022	YTD 2022	Q4 2021	YTD 2021
Reported operating income (loss)	**$ (308.0)**	$ 108.6	**$ 1,074.1**	$ (66.8)	$ 1,908.1
Asset write-downs and impairments	**$ 138.6**	$ -	**$ 138.6**	$ 293.5	$ 293.5
Inventory write-down, net	**$ 5.6**	$ 88.5	**$ 93.5**	$ 1.1	$ 2.4
Adjusted operating income (loss)[3]	**$ (163.8)**	$ 197.1	**$ 1,306.2**	$ 227.8	$ 2,204.0
Amortization	**$ 106.8**	$ 102.9	**$ 397.2**	**$** 95.0	$ 376.8
Adjusted operating income (loss) before amortization, asset write-downs and impairments[3]	**$ (57.0)**	$ 300.0	**$ 1,703.4**	$ 322.8	$ 2,580.8

[3] Effective Q1 2022, adjusted operating income (loss) was no longer adjusted for restructuring, mill closure and other items, net. Prior periods have been restated to reflect this change ($11.5 million net recovery in Q4 2021 and $15.3 million net recovery in YTD 2021).

After-tax impact, net of non-controlling interests (millions of Canadian dollars)	Q4 2022	Q3 2022	YTD 2022	Q4 2021	YTD 2021
Net income (loss)[4]	**$ (207.9)**	$ 87.4	**$ 787.3**	$ (23.1)	$ 1,341.6
Foreign exchange (gain) loss on term debt	**$ (1.7)**	$ 10.6	**$ 10.8**	$ 0.2	$ (5.5)
(Gain) loss on derivative financial instruments	**$ (2.0)**	$ 0.5	**$ (2.5)**	$ 3.0	$ 11.2
Asset write-downs and impairments	**$ 84.8**	$ -	**$ 84.8**	$ 182.9	$ 182.9
Adjusted net income (loss)[4,5]	**$ (126.8)**	$ 98.5	**$ 880.4**	$ 163.0	$ 1,530.2

[4] Attributable to equity shareholders of the Company.

[5] Effective Q1 2022, operating income (loss), net income (loss) and net income (loss) per share were no longer adjusted for restructuring, mill closure and other items, net. Prior periods have been restated to reflect this change (favourable per share impact of $0.07 in Q4 2021 and $0.09 in YTD 2021).

Forward Looking Statements

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, and Arkansas, as well as in Sweden with its majority acquisition of 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
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at December 31, 2022**		As at December 31, 2021
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**1,268.7**	$	1,354.8
Accounts receivable - Trade		**336.0**		430.4
- Other		**87.3**		84.1
Income taxes recoverable		**54.2**		-
Inventories (Note 3)		**1,180.7**		1,173.8
Prepaid expenses and other		**138.0**		120.3
Total current assets		**3,064.9**		3,163.4
Property, plant and equipment		**2,219.1**		1,812.7
Right-of-use assets		**99.1**		65.5
Timber licenses		**357.8**		313.2
Goodwill and other intangible assets		**532.1**		514.8
Long-term investments and other (Note 4)		**466.2**		304.3
Total assets	**$**	**6,739.2**	$	6,173.9
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**678.7**	$	730.2
Operating loans (Note 5(a))		**27.8**		18.7
Current portion of deferred reforestation obligations		**60.4**		58.3
Current portion of term debt (Note 5(b))		**45.3**		0.5
Current portion of lease obligations		**26.2**		21.9
Income taxes payable		**45.2**		252.0
Total current liabilities		**883.6**		1,081.6
Term debt (Note 5(b))		**213.6**		245.5
Retirement benefit obligations (Note 6)		**158.3**		205.5
Lease obligations		**79.5**		49.2
Deferred reforestation obligations		**43.8**		54.6
Other long-term liabilities		**32.0**		31.0
Put liability (Note 7)		**172.7**		156.2
Deferred income taxes, net		**392.9**		341.2
Total liabilities	**$**	**1,976.4**	$	2,164.8
EQUITY				
Share capital	**$**	**955.1**	$	982.2
Contributed surplus and other equity		**(157.7)**		(130.9)
Retained earnings		**3,341.5**		2,586.8
Accumulated other comprehensive income		**82.6**		45.9
Total equity attributable to equity shareholders of the Company		**4,221.5**		3,484.0
Non-controlling interests		**541.3**		525.1
Total equity	**$**	**4,762.8**	$	4,009.1
Total liabilities and equity	**$**	**6,739.2**	$	6,173.9

Subsequent Events (Notes 11 and 13)

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

APPROVED BY THE BOARD

"R.S. Smith"

Director, R.S. Smith

"The Hon. J.R. Baird"

Director, The Hon. J.R. Baird

Canfor Corporation
Condensed Consolidated Statements of Income (Loss)

(millions of Canadian dollars, except per share data, unaudited)	3 months ended December 31, **2022**	2021	12 months ended December 31, **2022**	2021
Sales	**$ 1,373.3**	$ 1,571.3	**$ 7,426.7**	$ 7,684.9
Costs and expenses				
Manufacturing and product costs	**1,143.7**	1,050.0	**4,795.0**	4,173.3
Freight and other distribution costs	**181.2**	168.9	**790.6**	701.0
Countervailing and anti-dumping duty expense (recovery), net (Note 13)	**55.0**	(1.1)	**49.1**	100.4
Amortization	**106.8**	95.0	**397.2**	376.8
Selling and administration costs	**51.2**	43.3	**174.2**	147.1
Restructuring and other items, net (Note 11)	**4.8**	(11.5)	**7.9**	(15.3)
Asset write-downs and impairments (Note 11)	**138.6**	293.5	**138.6**	293.5
	1,681.3	1,638.1	**6,352.6**	5,776.8
Operating income (loss)	**(308.0)**	(66.8)	**1,074.1**	1,908.1
Finance income (expense), net	**3.8**	(4.2)	**1.0**	(24.1)
Foreign exchange gain (loss) on term debt	**2.1**	(0.3)	**(12.4)**	6.3
Foreign exchange gain (loss) on duty deposits recoverable, net	**(11.5)**	(2.7)	**14.8**	(4.4)
Gain (loss) on derivative financial instruments (Note 7)	**4.7**	(4.6)	**3.9**	(16.1)
Other income (expense), net	**(10.2)**	5.3	**27.1**	27.0
Net income (loss) before income taxes	**(319.1)**	(73.3)	**1,108.5**	1,896.8
Income tax recovery (expense)	**87.7**	37.8	**(247.4)**	(438.0)
Net income (loss)	**$ (231.4)**	$ (35.5)	**$ 861.1**	$ 1,458.8
Net income (loss) attributable to:				
Equity shareholders of the Company	**$ (207.9)**	$ (23.1)	**$ 787.3**	$ 1,341.6
Non-controlling interests	**(23.5)**	(12.4)	**73.8**	117.2
Net income (loss)	**$ (231.4)**	$ (35.5)	**$ 861.1**	$ 1,458.8
Net income (loss) per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 8)	**$ (1.70)**	$ (0.19)	**$ 6.39**	$ 10.74

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 December 31, 2022	3 months ended December 31, 2021	12 months ended December 31, 2022	12 months ended December 31, 2021
Net income (loss)	**$ (231.4)**	$ (35.5)	**$ 861.1**	$ 1,458.8
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to net income (loss):				
Defined benefit plan actuarial gains (losses), net	**(5.8)**	9.9	**36.8**	46.9
Income tax recovery (expense) on defined benefit plan actuarial gains (losses), net	**1.6**	(3.2)	**(9.9)**	(13.2)
	(4.2)	6.7	**26.9**	33.7
Items that may be reclassified subsequently to net income (loss):				
Foreign exchange translation of foreign operations, net of tax	**40.6**	(26.4)	**36.7**	(73.8)
Other comprehensive income (loss), net of tax	**36.4**	(19.7)	**63.6**	(40.1)
Total comprehensive income (loss)	**$ (195.0)**	$ (55.2)	**$ 924.7**	$ 1,418.7
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	**$ (170.7)**	$ (44.3)	**$ 845.7**	$ 1,298.4
Non-controlling interests	**(24.3)**	(10.9)	**79.0**	120.3
Total comprehensive income (loss)	**$ (195.0)**	$ (55.2)	**$ 924.7**	$ 1,418.7

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 December 31, **2022**	3 months ended December 31, 2021	12 months ended December 31, **2022**	12 months ended December 31, 2021
Share capital				
Balance at beginning of period	**$ 966.6**	$ 982.2	**$ 982.2**	$ 987.9
Share purchases (Note 8)	**(11.5)**	-	**(27.1)**	(5.7)
Balance at end of period	**$ 955.1**	$ 982.2	**$ 955.1**	$ 982.2
Contributed surplus and other equity				
Balance at beginning of period	**$ (154.5)**	$ (143.8)	**$ (130.9)**	$ (127.4)
Put liability (Note 7)	**(3.2)**	12.9	**(26.8)**	(3.5)
Balance at end of period	**$ (157.7)**	$ (130.9)	**$ (157.7)**	$ (130.9)
Retained earnings				
Balance at beginning of period	**$ 3,574.1**	$ 2,603.9	**$ 2,586.8**	$ 1,227.3
Net income (loss) attributable to equity shareholders of the Company	**(207.9)**	(23.1)	**787.3**	1,341.6
Defined benefit plan actuarial gains (losses), net of tax	**(3.4)**	5.2	**21.7**	30.6
Dissolution of non-controlling interest	**-**	0.8	**-**	0.8
Share purchases (Note 8)	**(21.3)**	-	**(54.3)**	(13.5)
Balance at end of period	**$ 3,341.5**	$ 2,586.8	**$ 3,341.5**	$ 2,586.8
Accumulated other comprehensive income				
Balance at beginning of period	**$ 42.0**	$ 72.3	**$ 45.9**	$ 119.7
Foreign exchange translation of foreign operations, net of tax	**40.6**	(26.4)	**36.7**	(73.8)
Balance at end of period	**$ 82.6**	$ 45.9	**$ 82.6**	$ 45.9
Total equity attributable to equity shareholders of the Company	**$ 4,221.5**	$ 3,484.0	**$ 4,221.5**	$ 3,484.0
Non-controlling interests				
Balance at beginning of period	**$ 565.6**	$ 542.6	**$ 525.1**	$ 426.2
Net income (loss) attributable to non-controlling interests	**(23.5)**	(12.4)	**73.8**	117.2
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of tax	**(0.8)**	1.5	**5.2**	3.1
Distributions to non-controlling interests	**-**	(4.9)	**(62.8)**	(19.7)
Dissolution of non-controlling interest	**-**	(1.7)	**-**	(1.7)
Balance at end of period	**$ 541.3**	$ 525.1	**$ 541.3**	$ 525.1
Total equity	**$ 4,762.8**	$ 4,009.1	**$ 4,762.8**	$ 4,009.1

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 December 31, **2022**	3 months ended December 31, 2021	12 months ended December 31, **2022**	12 months ended December 31, 2021
Cash generated from (used in):				
Operating activities				
Net income (loss)	**$ (231.4)**	$ (35.5)	**$ 861.1**	$ 1,458.8
Items not affecting cash:				
Amortization	**106.8**	95.0	**397.2**	376.8
Income tax (recovery) expense	**(87.7)**	(37.8)	**247.4**	438.0
Change in long-term portion of deferred reforestation obligations, net	**12.4**	3.8	**(16.6)**	(7.4)
Foreign exchange (gain) loss on term debt	**(2.1)**	0.3	**12.4**	(6.3)
Foreign exchange (gain) loss on duties recoverable, net	**11.5**	2.7	**(14.8)**	4.4
Duties paid (greater) less than accruals (Note 13)	**45.3**	(27.5)	**(156.3)**	11.9
Changes in mark-to-market value of derivative financial instruments	**(5.4)**	2.8	**(4.1)**	2.9
Employee future benefits expense	**4.7**	2.3	**11.1**	10.8
Finance (income) expense, net	**(3.8)**	4.2	**(1.0)**	24.1
Asset write-downs and impairments (Note 11)	**138.6**	293.5	**138.6**	293.5
Other, net	**17.2**	(9.7)	**18.2**	(22.1)
Defined benefit plan contributions, net	**(2.4)**	(2.3)	**(12.2)**	(13.6)
Income taxes paid, net	**(42.7)**	(48.1)	**(462.6)**	(273.6)
	(39.0)	243.7	**1,018.4**	2,298.2
Net change in non-cash working capital (Note 9)	**(13.8)**	(147.9)	**94.6**	(383.3)
	(52.8)	95.8	**1,113.0**	1,914.9
Financing activities				
Operating loan drawings (repayments), net	**(5.3)**	3.2	**10.7**	8.0
Repayments of term debt, net	**(0.1)**	(7.9)	**(0.4)**	(422.8)
Payments of lease obligations	**(8.1)**	(6.0)	**(26.9)**	(25.3)
Finance expenses paid	**(6.9)**	(7.7)	**(21.1)**	(25.1)
Share purchases (Note 8)	**(30.3)**	(0.3)	**(78.9)**	(19.2)
Cash distributions paid to non-controlling interests	**-**	(4.9)	**(62.8)**	(19.7)
	(50.7)	(23.6)	**(179.4)**	(504.1)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(277.8)**	(175.3)	**(625.3)**	(428.2)
Acquisition of Millar Western (Note 12)	**-**	-	**(434.0)**	-
Phased acquisition of Elliott	**-**	-	**-**	(38.2)
Interest income received	**6.2**	0.5	**11.6**	1.2
Other, net	**16.6**	7.6	**1.1**	(3.2)
	(255.0)	(167.2)	**(1,046.6)**	(468.4)
Foreign exchange gain (loss) on cash and cash equivalents	**25.7**	(10.8)	**26.9**	(6.8)
Increase (decrease) in cash and cash equivalents*	**(332.8)**	(105.8)	**(86.1)**	935.6
Cash and cash equivalents at beginning of period*	**1,601.5**	1,460.6	**1,354.8**	419.2
Cash and cash equivalents at end of period*	**$ 1,268.7**	$ 1,354.8	**$ 1,268.7**	$ 1,354.8

*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") include the accounts of Canfor Corporation and its subsidiaries, hereinafter referred to as "Canfor" or "the Company." Significant subsidiaries include Canfor Southern Pine, Inc. ("CSP") and entities related to the acquisition of Millar Western Forest Products Ltd. ("Millar Western"), which are wholly owned, as well as Canfor Pulp Products Inc. ("CPPI") and the Vida Group ("Vida"), of which Canfor owned 54.8% and 70.0%, respectively, at December 31, 2022 and February 28, 2023.

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

These financial statements were authorized for issue by the Company's Board of Directors on February 28, 2023.

2. Seasonality of Operations

Canfor's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions such as forest fires, hurricanes and flooding, can cause logging curtailments which can affect the supply of raw materials to sawmills and pulp mills. Market demand also varies seasonally to some degree. Building activity and repair and renovation work, which affect demand for solid wood products, are generally stronger in the spring and fall months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

3. Inventories

(millions of Canadian dollars, unaudited)	**As at December 31, 2022**	As at December 31, 2021
Logs	**$ 305.3**	$ 343.4
Finished products	**693.5**	639.2
Residual fibre	**27.0**	56.5
Materials and supplies	**154.9**	134.7
	$ 1,180.7	$ 1,173.8

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended December 31, 2022, a $6.1 million inventory write-down expense was recognized for the lumber segment (twelve months ended December 31, 2022 – $95.7 million write-down expense). For the three and twelve months ended December 31, 2021, no inventory valuation adjustment was recognized. At December 31, 2022, an inventory provision of $95.7 million has been recognized for logs and lumber (December 31, 2021 – no provision).

For the three months ended December 31, 2022, a $0.5 million inventory write-down recovery was recognized for the pulp and paper segment (twelve months ended December 31, 2022 – $2.2 million net write-down recovery). For the three months ended December 31, 2021, a $1.1 million net write-down expense was recognized (twelve months ended December 31, 2021 – $2.4 million net write-down expense). At December 31, 2022, a provision for logs of $2.4 million was recognized (December 31, 2021 – provision of $4.6 million).

4. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)	As at December 31, 2022	As at December 31, 2021
Duty deposits recoverable, net (Note 13)	**$ 372.9**	$ 188.4
Other deposits, loans, advances and long-term assets	**49.3**	49.0
Other investments	**33.4**	37.5
Retirement benefit surplus	**9.6**	24.0
Deferred income taxes, net	**1.0**	5.4
	$ 466.2	$ 304.3

The duty deposits recoverable, net balance represents US-dollar countervailing duties ("CVD") and anti-dumping duties ("ADD") and duty cash deposits paid in excess of the calculated expense accrued at December 31, 2022, including interest receivable of $40.8 million (December 31, 2021 – $24.8 million), as well as a $97.6 million (US$73.0 million) receivable recognized in the third quarter of 2022 upon finalization of the CVD and ADD rates applicable to the third period of review (Note 13).

5. Operating Loans and Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)	As at December 31, 2022	As at December 31, 2021
Canfor (excluding Vida and CPPI)		
Available operating loans:		
Operating loan facility	**$ 775.0**	$ 775.0
Revolving credit facility (US$150.0 million)	**203.2**	190.2
Facilities for letters of credit	**70.0**	70.0
Total operating loan facilities	**1,048.2**	1,035.2
Letters of credit	**(69.0)**	(67.8)
Total available operating loan facilities - Canfor	**$ 979.2**	$ 967.4
Vida		
Available operating loans:		
Operating loan facilities	**$ 66.4**	$ 71.3
Overdraft facilities	**43.8**	30.2
Total operating loan facilities	**110.2**	101.5
Operating loan facilities drawn	**(12.8)**	(18.7)
Total available operating loan facilities - Vida	**$ 97.4**	$ 82.8
CPPI		
Available operating loans:		
Operating loan facility	**$ 110.0**	$ 110.0
Letters of credit	**(12.9)**	(12.9)
Operating loan facility drawn	**(15.0)**	-
Total available operating loan facility - CPPI	**$ 82.1**	$ 97.1
Consolidated:		
Total operating loan facilities	**$ 1,268.4**	$ 1,246.7
Total operating loan facilities drawn	**$ (27.8)**	$ (18.7)
Total letters of credit	**$ (81.9)**	$ (80.7)
Total available operating loan facilities	**$ 1,158.7**	$ 1,147.3

On October 31, 2022, Canfor (excluding Vida and CPPI) extended the maturity date of its $775.0 million committed operating loan facility from October 27, 2026 to October 31, 2027.

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

Canfor (excluding Vida and CPPI) has a separate facility to cover letters of credit. At December 31, 2022, $66.3 million of letters of credit outstanding are covered under this facility with the balance of $2.7 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 2.8% to 5.9%. Vida also has separate overdraft facilities with fixed interest rates ranging from 3.9% to 5.9%.

On November 1, 2022, CPPI extended the maturity date of its committed operating loan facility from December 15, 2025 to November 1, 2026.

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 the 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 December 31, 2022, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their operating loan facilities. Substantially all borrowings of Vida and CPPI are non-recourse to other entities within the Company.

(b) Term Debt

(millions of Canadian dollars, unaudited)		**As at December 31, 2022**		As at December 31, 2021
Canfor (excluding Vida and CPPI)				
US$50.0 million, floating interest, repayable on June 28, 2031	**$**	**67.7**	$	63.4
US$100.0 million, fixed interest of 4.4%, repayable in three equal tranches on October 2, 2023, 2024 and 2025		**135.4**		126.8
Other		**5.2**		4.6
Vida				
SEK 0.3 million, floating interest, repayable April 30, 2023		**0.1**		0.2
SEK 1.0 million, floating interest, repayable November 30, 2024		**0.1**		0.5
AUD$0.5 million, floating interest, repayable between April 23, 2024 and May 31, 2028		**0.4**		0.5
CPPI				
CAD$50.0 million, floating interest, repayable November 1, 2025		**50.0**		50.0
Term debt at end of period	**$**	**258.9**	$	246.0
Less: Current portion		**(45.3)**		(0.5)
Long-term portion	**$**	**213.6**	$	245.5

On November 1, 2022, CPPI extended the maturity date of its $50.0 million non-revolving term debt from December 15, 2024 to November 1, 2025.

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 December 31, 2022, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their term debt.

6. Employee Future Benefits

As at December 31, 2022, one of the Company's registered defined benefit pension plans held $308.2 million of buy-in annuities purchased prior to 2019. Buy-in annuity contracts substantially mitigate the exposure to future volatility in pension plan obligations, as future cash flows from the annuities match the amount and timing of benefits payable under the plan. Subsequent to 2019, no buy-in annuities were purchased by the Company for this plan.

On December 31, 2022, the Company entered into contracts to convert all of its existing buy-in annuities to buy-out annuities. As a result of these contracts, the Company's buy-in annuity assets and corresponding accrued benefit obligation of $308.2 million were derecognized from the Company's condensed consolidated interim balance sheet as at December 31, 2022.

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.

There were no transfers between fair value hierarchy levels in 2022 or 2021. The following table summarizes Canfor's financial instruments measured at fair value at December 31, 2022 and December 31, 2021, and shows the level within the fair value hierarchy in which they have been classified:

(millions of Canadian dollars, unaudited)	Fair Value Hierarchy Level		**As at December 31, 2022**		As at December 31, 2021
Financial assets measured at fair value					
Investments	Level 1	**$**	**31.7**	$	36.1
Derivative financial instruments	Level 2		**2.0**		-
Duty deposits recoverable, net (Notes 4 and 13)	Level 3		**372.9**		188.4
		$	**406.6**	$	224.5
Financial liabilities measured at fair value					
Derivative financial instruments	Level 2	**$**	**-**	$	2.1
Put liability	Level 3		**172.7**		156.2
		$	**172.7**	$	158.3

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

(millions of Canadian dollars, unaudited)	3 months ended December 31, **2022**			2021	12 months ended December 31, **2022**			2021
Lumber futures	**$**	**(2.7)**	$	(2.8)	**$**	**2.0**	$	(12.7)
Foreign exchange forward contracts		**7.4**		(1.8)		**1.9**		(3.4)
Gain (loss) on derivative financial instruments	**$**	**4.7**	$	(4.6)	**$**	**3.9**	$	(16.1)

During the three and twelve months ended December 31, 2022, losses of $3.2 million and $26.8 million, respectively, were recognized in 'Other equity' on the Company's condensed consolidated interim balance sheet following remeasurement of the put liability (three and twelve months ended December 31, 2021 – gain of $12.9 million and a loss of $3.5 million, respectively). As a result of this remeasurement, combined with a foreign exchange loss of $10.2 million and a foreign exchange gain of $10.3 million for the three and twelve months ended December 31, 2022, respectively (three and twelve months ended December 31, 2021 – gains of $5.4 million and $17.3 million, respectively), the balance of the put liability was $172.7 million at December 31, 2022 (December 31, 2021 – $156.2 million).

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

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

	3 months ended December 31, **2022**	2021	12 months ended December 31, **2022**	2021
Weighted average number of common shares	**122,089,355**	124,493,600	**123,198,290**	124,909,404

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

During the three months ended December 31, 2022, the Company purchased 1,459,821 common shares for $32.8 million (an average of $22.47 per common share), of which $30.3 million was paid during the quarter. During the twelve months ended December 31, 2022, the Company purchased 3,434,021 common shares for $81.4 million (an average of $23.70 per common share), of which $78.9 million was paid during the period.

As at December 31, 2022 and February 28, 2023, based on the trade date, there were 121,059,579 common shares of the Company outstanding and Canfor's ownership interest in CPPI and Vida was 54.8% and 70.0%, respectively.

9. Net Change in Non-Cash Working Capital

	3 months ended December 31,		12 months ended December 31,	
(millions of Canadian dollars, unaudited)	**2022**	2021	**2022**	2021
Accounts receivable	**$ 102.4**	$ 21.3	**$ 100.9**	$ (103.3)
Inventories	**(18.3)**	(153.5)	**88.2**	(356.3)
Prepaid expenses and other	**3.7**	2.8	**(11.0)**	(24.1)
Accounts payable and accrued liabilities, and current portion of deferred reforestation obligations	**(101.6)**	(18.5)	**(83.5)**	100.4
Net change in non-cash working capital	**$ (13.8)**	$ (147.9)	**$ 94.6**	$ (383.3)

10. 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 December 31, 2022					
Sales from contracts with customers	**$ 1,105.2**	**268.1**	**-**	**-**	**$ 1,373.3**
Sales to other segments	**31.9**	**-**	**-**	**(31.9)**	**-**
Operating loss	**(199.5)**	**(91.1)**	**(17.4)**	**-**	**(308.0)**
Amortization	**79.9**	**26.4**	**0.5**	**-**	**106.8**
Capital expenditures[1]	**247.6**	**28.0**	**2.2**	**-**	**277.8**
3 months ended December 31, 2021					
Sales from contracts with customers	$ 1,322.0	249.3	-	-	$ 1,571.3
Sales to other segments	35.8	-	-	(35.8)	-
Operating income (loss)	86.3	(137.2)	(15.9)	-	(66.8)
Amortization	72.0	22.6	0.4	-	95.0
Capital expenditures[1]	158.1	16.0	1.2	-	175.3
12 months ended December 31, 2022					
Sales from contracts with customers	**$ 6,341.3**	**1,085.4**	**-**	**-**	**$ 7,426.7**
Sales to other segments	**140.1**	**0.2**	**-**	**(140.3)**	**-**
Operating income (loss)	**1,237.2**	**(106.0)**	**(57.1)**	**-**	**1,074.1**
Amortization	**297.7**	**97.8**	**1.7**	**-**	**397.2**
Capital expenditures[1]	**507.7**	**112.6**	**5.0**	**-**	**625.3**
Total assets	**4,226.9**	**738.5**	**1,773.8**	**-**	**6,739.2**
12 months ended December 31, 2021					
Sales from contracts with customers	$ 6,540.5	1,144.4	-	-	$ 7,684.9
Sales to other segments	191.1	0.5	-	(191.6)	-
Operating income (loss)	2,019.6	(65.5)	(46.0)	-	1,908.1
Amortization	288.1	87.3	1.4	-	376.8
Capital expenditures[1]	344.5	78.7	5.0	-	428.2
Total assets	3,752.3	767.8	1,653.8	-	6,173.9

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

Geographic information

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

(millions of Canadian dollars, unaudited)	3 months ended December 31,				12 months ended December 31,			
		2022		2021		**2022**		2021
Sales by location of customer								
Canada	**13%**	**$ 180.0**	8%	$ 121.2	**11%**	**$ 823.2**	9%	$ 698.8
United States	**50%**	**690.8**	51%	792.7	**55%**	**4,062.4**	54%	4,155.9
Europe	**18%**	**244.6**	21%	332.5	**17%**	**1,264.5**	17%	1,293.7
Asia	**17%**	**227.6**	18%	287.4	**15%**	**1,122.5**	18%	1,370.9
Other	**2%**	**30.3**	2%	37.5	**2%**	**154.1**	2%	165.6
	100%	**$ 1,373.3**	100%	$ 1,571.3	**100%**	**$ 7,426.7**	100%	$ 7,684.9

11. Asset Write-Downs, Impairments and Restructuring Costs

During the Company's annual impairment review, the ongoing uncertainty with regard to economically viable timber supply within British Columbia was identified as an impairment indicator. As a result, the Company performed an impairment assessment on its Western Canadian lumber operations as at December 31, 2022.

The recoverable amount of the timber licenses and property, plant and equipment within the Western Canadian lumber operations was determined based on an assessment of value in use, estimated using a discounted cash flow model. This discounted cash flow model was projected based on past experience and actual operating results as well as Management's assessment of future trends in the forest industry, based on both external and internal sources of data. Significant assumptions include future production volume, commodity prices, log and production costs, as well as the discount rate. Other assumptions include applicable foreign exchange rates, operating rates of the assets, and the future capital required to maintain the assets in their current operating condition. Estimated future cash flows were discounted at a rate of 11% (15% before tax) (2021 – 10%; 14% before tax), based on the Company's weighted average cost of capital for that region in 2022.

In addition, as a result of continued fibre cost pressures and ongoing uncertainty surrounding fibre availability for CPPI's pulp mills, CPPI performed an impairment assessment as at December 31, 2022 on the property, plant and equipment of the pulp operations.

The recoverable amount of the property, plant and equipment within the pulp operations was determined based on an assessment of value in use, estimated using a discounted cash flow model. This discounted cash flow model was projected based on past experience and actual operating results as well as Management's assessment of future trends in the pulp industry, based on both external and internal sources of data. Significant assumptions include future production volume, commodity prices, fibre and production costs, as well as the discount rate. Other assumptions include applicable foreign exchange rates, operating rates of the assets, and the future capital required to maintain the assets in their current operating condition. Estimated future cash flows were discounted at a rate of 9% (12% before tax) (2021 – 8%; 11% before tax), based on CPPI's weighted average cost of capital for 2022.

Subsequent to year-end, in early 2023, the Company announced the decision to permanently close the pulp line at CPPI's Prince George pulp and paper mill and the Chetwynd sawmill and pellet plant.

As a result of these closures, as well as the aforementioned impairment assessment, an asset write-down and impairment charge of $89.0 million was recognized in the Company's lumber segment as a reduction of the carrying value of the Company's Western Canadian lumber operations for the three and twelve months ended December 31, 2022 (three and twelve months ended December 31, 2021 – $198.5 million). An additional $49.6 million was recognized as a reduction to the carrying value of pulp assets within the pulp and paper segment for the three and twelve months ended December 31, 2022 (three and twelve months ended December 31, 2021 – $95.0 million).

During the three and twelve months ended December 31, 2022, CPPI recognized restructuring costs of $4.8 million and $7.9 million, respectively, related to the curtailment during the current year at CPPI's Taylor BCTMP mill.

12. Millar Western Acquisition

On March 1, 2022, Canfor completed the acquisition of Millar Western's solid wood operations and associated forest tenure for total consideration of $434.0 million, including $99.0 million in net working capital. Millar Western's solid wood operations, located in Alberta, Canada, consist of two sawmills and one high-value specialty facility and have an annual production capacity of 630 million board feet. The transaction was accounted for as a business combination under IFRS 3 *Business Combinations* ("IFRS 3") and is included in Canfor's lumber segment.

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

(millions of Canadian dollars, unaudited)		Preliminary		**Final**
Property, plant and equipment	$	235.5	**$**	**236.7**
Timber licenses		83.7		**83.7**
Non-cash working capital, net (including inventory)		97.1		**99.0**
Goodwill		29.5		**26.4**
Deferred reforestation obligations		(11.8)		**(11.8)**
Total net assets	$	434.0	**$**	**434.0**

The significant assumptions included replacement cost estimates of the acquisition date fair values of acquired property, plant and equipment and physical depreciation assumptions. The Company leveraged insurance appraisals to estimate the replacement cost of the assets.

The fair value of timber licenses acquired was determined by leveraging a market comparison technique based on precedent tenure transactions in Alberta.

The fair value of inventory was determined by Canfor applying a market comparison technique, determined based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Goodwill of $26.4 million has been recognized as part of the purchase, calculated as the excess of the aggregate consideration transferred over the fair value of the net assets acquired. The goodwill arising from the acquisition is attributable to expected future income and cash-flow projections, access to new customers and markets, and the ability to further diversify Canfor's product offering.

Following the completion of final review procedures, the Company recognized valuation adjustments resulting in a $3.1 million decrease in goodwill, a $1.2 million increase in property, plant and equipment and a $1.9 million increase in inventory.

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

13. Countervailing and Anti-Dumping Duties

In 2016, a petition was filed by the US Lumber Coalition to the US Department of Commerce ("DOC") and the US International Trade Commission ("ITC") alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers. Canfor was selected by the DOC as a "mandatory respondent" to the countervailing and anti-dumping investigations and is subject to company specific CVD and ADD rates. As a result of the DOC's investigation, CVD and ADD were imposed on the Company's Canadian lumber exports to the United States beginning in 2017. As at December 31, 2022, Canfor has paid cumulative cash deposits of $887.9 million.

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

On January 1, 2022, the Company moved into the fifth period of review ("POR5"), which is based on sales and cost data in 2022. Consistent with prior periods of review, the Company was unable to estimate an applicable CVD rate separate from the DOC's cash deposit rate. As a result, CVD was expensed at a rate of 2.42% until July 2022 and

0.95% thereafter, while ADD was expensed at an estimated rate of 9.00%. Despite cash deposits being made in 2022 at rates determined by the DOC, the final liability associated with duties is not determined until the completion of administrative reviews performed by the DOC.

For accounting purposes, a net duty recoverable of $372.9 million is included on the Company's condensed consolidated balance sheet (Note 4) reflecting differences between the cash deposit rates and the Company's combined accrual rates for each period of review, including interest. For the three and twelve months ended December 31, 2022, the Company recorded a net duty expense of $55.0 million and $49.1 million, respectively, comprised of the following:

(millions of Canadian dollars, unaudited)	3 months ended December 31, **2022**	12 months ended December 31, **2022**
Cash deposits paid	**$ 9.7**	**$ 205.4**
Duty expense (recovery) attributable to POR5 – combined CVD and ADD[2]	**45.3**	**(58.7)**
Duty recovery adjustment – combined CVD and ADD[3]	**-**	**(97.6)**
Duty expense, net	**$ 55.0**	**$ 49.1**

[2] Reflects Canfor's combined accrual rate (11.42% until July 2022 and 9.95% thereafter) compared to the DOC's deposit rate (19.54% until July 2022 and 5.87% thereafter) for POR5.

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

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

Subsequent to year-end, in January 2023, the DOC announced the preliminary results for the fourth period of review ("POR4"), which indicated that the Company's preliminary CVD and ADD rate for 2021 was 2.04% and 5.25%, respectively. Upon finalization of these rates (anticipated in the third quarter of 2023), a recovery, estimated at $10.9 million (US$8.8 million), will be recognized in the Company's condensed consolidated financial statements to reflect the difference between the combined accrual rate of 9.63% between January and November 2021 and 9.42% for December 2021, and the DOC rates for POR4. In addition, once final, the Company's current combined cash deposit rate of 5.87% will be reset to the DOC rates for POR4 (currently estimated to be 7.29% based on the preliminary determination).