For the three months ended June 30, 2022, actuarial gains of $18.6 million (before tax) were recognized in other comprehensive income (loss), largely reflecting a higher discount rate used to value the net defined benefit obligations, partially offset by a lower than anticipated return on plan assets, and to a lesser extent, a loss related to the derecognition of a surplus for one of the Company's registered defined benefit plans. For the six months ended June 30, 2022, actuarial gains of $52.6 million (before tax) were recognized in other comprehensive income (loss).

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

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

7. Financial Instruments

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

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

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

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

The following table summarizes Canfor’s financial instruments measured at fair value at June 30, 2023 and December 31, 2022, and shows the level within the fair value hierarchy in which the financial instruments have been classified:

(millions of Canadian dollars, unaudited)	Fair Value Hierarchy Level		**As at June 30, 2023**		As at December 31, 2022
Financial assets measured at fair value					
Investments	Level 1	**$**	**29.1**	$	31.7
Derivative financial instruments	Level 2		**0.9**		2.0
Duty deposits recoverable, net (Note 4)	Level 3		**332.2**		372.9
		$	**362.2**	$	406.6
Financial liabilities measured at fair value					
Derivative financial instruments	Level 2	**$**	**4.0**	$	-
Put liability	Level 3		**171.9**		172.7
		$	**175.9**	$	172.7

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

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

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

8. Income Taxes

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

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

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

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

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

9. Earnings (Loss) Per Common Share

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

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

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

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

10. Net Change in Non-Cash Working Capital

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

11. Segment Information

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

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

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

[1]Capital expenditures represent cash paid for capital assets during the periods, excluding assets purchased as part of acquisitions.

[2]Pulp & Paper includes capital expenditures by CPPI that were partially financed by government grants.

Geographic information

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

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

12. Countervailing and Anti-Dumping Duties

In 2016, a petition was filed by the US Lumber Coalition to the US Department of Commerce ("DOC") and the US International Trade Commission ("ITC") alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers. Canfor was selected by the DOC as a "mandatory respondent" to the countervailing and anti-dumping investigations and is subject to company specific CVD and ADD rates. As a result of the DOC's investigation, CVD and ADD were imposed on the Company's Canadian lumber exports to the United States beginning in 2017. As at June 30, 2023, Canfor has paid cumulative cash deposits of $908.7 million.

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

On January 1, 2023, the Company moved into the sixth period of review ("POR6"), which is based on sales and cost data in 2023. Consistent with prior periods of review, the Company was unable to estimate an applicable CVD rate separate from the DOC's cash deposit rate. As a result, CVD was expensed at a rate of 0.95% for the three and six months ended June 30, 2023, while ADD was expensed at an estimated rate of 20.00%. Despite cash deposits being made in 2023 at rates determined by the DOC, the final liability associated with duties is not determined until the completion of administrative reviews performed by the DOC.

Also in January 2023, the DOC announced the preliminary results for the fourth period of review ("POR4"), which is based on sales and cost data in 2021. The Company's preliminary CVD and ADD rate for 2021 was determined to be 2.04% and 5.25%, respectively. Upon finalization of these rates (anticipated in the third quarter of 2023), a recovery, estimated at $10.9 million (US$8.8 million), will be recognized in the Company's condensed consolidated interim financial statements to reflect the difference between the combined accrual rate of 9.63% between January and November 2021 and 9.42% for December 2021, and the DOC rate for POR4 (currently estimated to be 7.29% based on the preliminary determination).

In addition, upon finalization of these rates, the Company's current combined cash deposit rate of 5.87% will be reset to the final rates as determined in POR4 (7.29% based on the preliminary determination). This new cash deposit rate will apply to the Company's Canadian lumber shipments, destined to the United States until completion of the administrative review for the fifth period of review ("POR5") (anticipated in 2024). Despite the reduced preliminary rates for POR4, no cash duties will be refunded to the Company until such time as the litigation regarding the imposition of CVD and ADD has been settled.

Summary

For accounting purposes, a net duty recoverable of $332.2 million is included on the Company's condensed consolidated interim balance sheet (Note 4) reflecting differences between the cash deposit rates and the Company's combined accrual rates for each period of review, including interest. For the three months and six months ended June 30, 2023, the Company recorded a duty expense of $33.6 million and $62.8 million, respectively (three and six months ended June 30, 2022 – net duty expense of $33.2 million and $71.1 million, respectively), comprised of the following:

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

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

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

13. Restructuring Costs

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

14. Non-Controlling Interests

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