2020

QUARTER THREE

FINANCIAL STATEMENTS

CANFOR CORPORATION

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at September 30, 2020**		As at December 31, 2019
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**192.5**	$	60.1
Accounts receivable - Trade		**333.6**		259.7
- Other		**63.7**		41.3
Income taxes receivable		**7.4**		112.5
Inventories (Note 3)		**743.3**		803.9
Prepaid expenses and other		**76.6**		64.0
Assets held for sale (Note 7)		**3.0**		69.0
Total current assets		**1,420.1**		1,410.5
Property, plant and equipment		**1,950.9**		1,974.5
Right-of-use assets		**80.0**		68.5
Timber licenses		**435.1**		445.7
Goodwill and other intangible assets		**547.8**		447.3
Long-term investments and other (Note 4)		**110.5**		173.7
Retirement benefit surplus (Note 6)		**1.2**		5.9
Deferred income taxes, net		**10.2**		0.9
Total assets	**$**	**4,555.8**	$	4,527.0
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**539.0**	$	478.4
Operating loans (Note 5(a))		**14.2**		382.0
Current portion of deferred reforestation obligations		**50.9**		51.0
Current portion of term debt (Note 5(b))		**20.5**		13.0
Other current liability		**40.6**		13.0
Current portion of lease obligations		**21.8**		21.3
Income tax payable		**-**		5.5
Liabilities held for sale (Note 7)		**0.8**		3.3
Total current liabilities		**687.8**		967.5
Term debt (Note 5(b))		**683.3**		681.7
Retirement benefit obligations (Note 6)		**261.2**		237.0
Lease obligations		**63.3**		50.9
Deferred reforestation obligations		**52.4**		56.3
Other long-term liabilities		**36.9**		32.9
Put liability (Note 8)		**127.1**		111.9
Deferred income taxes, net		**343.2**		319.9
Total liabilities	**$**	**2,255.2**	$	2,458.1
EQUITY				
Share capital	**$**	**987.9**	$	987.9
Contributed surplus and other equity		**(92.1)**		(82.8)
Retained earnings		**865.2**		674.3
Accumulated other comprehensive income		**122.0**		65.9
Total equity attributable to equity shareholders of the Company		**1,883.0**		1,645.3
Non-controlling interests		**417.6**		423.6
Total equity	**$**	**2,300.6**	$	2,068.9
Total liabilities and equity	**$**	**4,555.8**	$	4,527.0

Contingencies (Note 15) and **Subsequent Events** (Note 16)

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

"C.A. Pinette"
Director, C.A. Pinette

Canfor Corporation
Condensed Consolidated Statements of Income (Loss)

(millions of Canadian dollars, except per share data, unaudited)	3 months ended September 30, 2020	3 months ended September 30, 2019	9 months ended September 30, 2020	9 months ended September 30, 2019
Sales	**$ 1,550.4**	$ 1,091.4	**$ 3,836.4**	$ 3,553.1
Costs and expenses				
Manufacturing and product costs	**898.1**	864.3	**2,532.4**	2,750.5
Freight and other distribution costs	**174.4**	164.5	**500.7**	523.4
Countervailing and anti-dumping duty expense, net (Note 14)	**50.7**	53.5	**114.3**	135.0
Amortization	**93.5**	92.9	**280.5**	267.0
Selling and administration costs	**34.1**	30.1	**85.4**	94.0
Restructuring, mill closure and severance costs, net	**-**	6.4	**15.4**	17.9
	1,250.8	1,211.7	**3,528.7**	3,787.8
Operating income (loss)	**299.6**	(120.3)	**307.7**	(234.7)
Finance expense, net	**(11.2)**	(16.1)	**(40.3)**	(41.2)
Foreign exchange gain (loss) on term debt	**2.0**	(3.0)	**(9.3)**	2.1
Foreign exchange gain (loss) on duty deposits recoverable, net	**(0.9)**	0.8	**1.0**	(2.3)
Loss on derivative financial instruments (Note 8)	**(7.9)**	(0.1)	**(8.4)**	(25.9)
Other income, net	**5.9**	1.2	**17.4**	2.0
Net income (loss) before income taxes	**287.5**	(137.5)	**268.1**	(300.0)
Income tax recovery (expense) (Note 9)	**(71.5)**	33.6	**(54.9)**	76.4
Net income (loss)	**$ 216.0**	$ (103.9)	**$ 213.2**	$ (223.6)
Net income (loss) attributable to:				
Equity shareholders of the Company	**$ 218.1**	$ (88.5)	**$ 208.8**	$ (223.9)
Non-controlling interests	**(2.1)**	(15.4)	**4.4**	0.3
Net income (loss)	**$ 216.0**	$ (103.9)	**$ 213.2**	$ (223.6)
Net income (loss) per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 10)	**$ 1.74**	$ (0.71)	**$ 1.67**	$ (1.79)

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, **2020**	3 months ended September 30, 2019	9 months ended September 30, **2020**	9 months ended September 30, 2019
Net income (loss)	**$ 216.0**	$ (103.9)	**$ 213.2**	$ (223.6)
Other comprehensive income (loss)				
Items that will not be recycled through net income (loss):				
Defined benefit plan actuarial gains (losses) (Note 6)	**(17.9)**	5.8	**(26.9)**	10.9
Income tax recovery (expense) on defined benefit plan actuarial losses/gains (Note 9)	**4.9**	(1.6)	**7.3**	(3.0)
	(13.0)	4.2	**(19.6)**	7.9
Items that may be recycled through net income (loss):				
Foreign exchange translation of foreign operations, net of tax	**(12.1)**	(18.5)	**56.1**	(47.2)
Other comprehensive income (loss), net of tax	**(25.1)**	(14.3)	**36.5**	(39.3)
Total comprehensive income (loss)	**$ 190.9**	$ (118.2)	**$ 249.7**	$ (262.9)
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	**$ 194.3**	$ (103.1)	**$ 247.0**	$ (267.2)
Non-controlling interests	**(3.4)**	(15.1)	**2.7**	4.3
Total comprehensive income (loss)	**$ 190.9**	$ (118.2)	**$ 249.7**	$ (262.9)

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, 2020	3 months ended September 30, 2019	9 months ended September 30, 2020	9 months ended September 30, 2019
Share capital				
Balance at beginning of period	**$ 987.9**	$ 987.9	**$ 987.9**	$ 987.9
Balance at end of period	**$ 987.9**	$ 987.9	**$ 987.9**	$ 987.9
Contributed surplus and other equity				
Balance at beginning of period	**$ (89.2)**	$ (86.7)	**$ (82.8)**	$ 31.9
Put liability related to Vida acquisition (Note 8)	**(2.9)**	-	**(9.3)**	(118.6)
Balance at end of period	**$ (92.1)**	$ (86.7)	**$ (92.1)**	$ (86.7)
Retained earnings				
Balance at beginning of period	**$ 658.8**	$ 794.1	**$ 674.3**	$ 931.1
Net income (loss) attributable to equity shareholders of the Company	**218.1**	(88.5)	**208.8**	(223.9)
Defined benefit plan actuarial gains (losses), net of tax	**(11.7)**	3.9	**(17.9)**	3.9
Impact of change in lease accounting policy	**-**	-	**-**	(1.6)
Balance at end of period	**$ 865.2**	$ 709.5	**$ 865.2**	$ 709.5
Accumulated other comprehensive income				
Balance at beginning of period	**$ 134.1**	$ 76.8	**$ 65.9**	$ 105.5
Foreign exchange translation of foreign operations, net of tax	**(12.1)**	(18.5)	**56.1**	(47.2)
Balance at end of period	**$ 122.0**	$ 58.3	**$ 122.0**	$ 58.3
Total equity attributable to equity shareholders of the Company	**$ 1,883.0**	$ 1,669.0	**$ 1,883.0**	$ 1,669.0
Non-controlling interests				
Balance at beginning of period	**$ 428.0**	$ 458.3	**$ 423.6**	$ 283.5
Net income (loss) attributable to non-controlling interests	**(2.1)**	(15.4)	**4.4**	0.3
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of tax	**(1.3)**	0.3	**(1.7)**	4.0
Distributions to non-controlling interests	**(7.0)**	(2.1)	**(8.7)**	(17.6)
Impact of change in lease accounting policy	**-**	-	**-**	(0.1)
Acquisition of non-controlling interests	**-**	(0.3)	**-**	170.7
Balance at end of period	**$ 417.6**	$ 440.8	**$ 417.6**	$ 440.8
Total equity	**$ 2,300.6**	$ 2,109.8	**$ 2,300.6**	$ 2,109.8

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2020	3 months ended September 30, 2019	9 months ended September 30, 2020	9 months ended September 30, 2019
Cash generated from (used in):				
Operating activities				
Net income (loss)	**$ 216.0**	$ (103.9)	**$ 213.2**	$ (223.6)
Items not affecting cash:				
Amortization	**93.5**	92.9	**280.5**	267.0
Income tax expense (recovery)	**71.5**	(33.6)	**54.9**	(76.4)
Change in long-term deferred reforestation obligations, net	**(28.4)**	(27.5)	**(4.6)**	(15.0)
Foreign exchange (gain) loss on term debt	**(2.0)**	3.0	**9.3**	(2.1)
Foreign exchange (gain) loss on duty deposits recoverable, net (Note 4)	**0.9**	(0.8)	**(1.0)**	2.3
Adjustment to accrued duties (Note 14)	**(13.5)**	19.9	**(11.8)**	30.9
Changes in mark-to-market value of derivative financial instruments (Note 8)	**(0.7)**	0.1	**1.3**	15.7
Employee future benefits expense	**2.8**	2.6	**8.0**	8.0
Restructuring, mill closure and severance costs	**-**	6.4	**15.4**	17.9
Finance expense, net	**11.2**	16.1	**40.3**	41.2
Other, net	**5.4**	-	**6.3**	(0.8)
Restructuring, mill closure and severance costs paid	**(7.0)**	(8.5)	**(11.0)**	(8.5)
Defined benefit plan contributions, net	**(2.0)**	(5.7)	**(11.1)**	(16.4)
Income taxes received (paid), net	**(2.3)**	(6.1)	**69.0**	(7.5)
	345.4	(45.1)	**658.7**	32.7
Net change in non-cash working capital (Note 11)	**77.3**	63.1	**54.8**	41.1
	422.7	18.0	**713.5**	73.8
Financing activities				
Change in operating loans (Note 5(a))	**(286.5)**	82.5	**(368.7)**	424.1
Proceeds (repayment), net from term debt	**(0.1)**	49.8	**0.1**	281.1
Payment of lease obligations	**(6.4)**	(4.6)	**(17.9)**	(11.9)
Finance expenses paid	**(8.8)**	(12.7)	**(35.8)**	(34.3)
Cash distributions paid to non-controlling interests	**(7.0)**	(2.1)	**(8.7)**	(17.6)
Acquisition of non-controlling interest, net	**-**	(0.2)	**-**	(0.2)
	(308.8)	112.7	**(431.0)**	641.2
Investing activities				
Additions to property, plant and equipment, timber, and intangible assets, net	**(23.1)**	(76.4)	**(107.6)**	(233.1)
Consideration paid for Bergs sawmill assets (Note 13(a))	**(58.7)**	-	**(58.7)**	-
Other, net	**0.4**	1.2	**4.7**	(15.1)
Proceeds on sale of Vavenby forest tenure (Note 7)	**-**	-	**56.5**	-
Consideration paid for acquisition of Vida, net of cash acquired	**-**	-	**-**	(562.3)
Vida consideration holdback	**-**	-	**-**	(9.7)
Phased acquisition of Elliott, net of cash acquired (Note 13(b))	**-**	-	**(46.3)**	(52.0)
	(81.4)	(75.2)	**(151.4)**	(872.2)
Foreign exchange gain (loss) on cash and cash equivalents	**(1.8)**	0.1	**1.3**	0.8
Increase (decrease) in cash and cash equivalents*	**30.7**	55.6	**132.4**	(156.4)
Cash and cash equivalents at beginning of period*	**161.8**	40.7	**60.1**	252.7
Cash and cash equivalents at end of period*	**$ 192.5**	$ 96.3	**$ 192.5**	$ 96.3

*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 Standard ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Corporation and its subsidiary entities, including Canfor Pulp Products Inc. ("CPPI") and the Vida Group of Sweden ("Vida"), hereinafter referred to as "Canfor" or "the Company".

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, 2019, 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 22, 2020.

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, 2020**		As at December 31, 2019
Logs	**$**	**127.0**	$	185.5
Finished products		**435.2**		452.6
Residual fibre		**55.5**		38.7
Materials and supplies		**125.6**		127.1
	$	**743.3**	$	803.9

The above balances are stated at the lower of cost and net realizable value. For the three months ended September 30, 2020, no inventory valuation adjustment was recognized for the lumber segment (nine months ended September 30, 2020 – $17.6 million write-down recovery). No provision for logs and lumber remains at September 30, 2020 (December 31, 2019 – provision of $17.6 million, net of a specific provision of $10.5 million).

For the three months ended September 30, 2020, a $3.0 million write-down recovery was recognized in the pulp and paper segment (nine months ended September 30, 2020 – $5.5 million write-down recovery), resulting in a $5.2 million inventory provision for pulp logs, finished products and raw materials at September 30, 2020 (December 31, 2019 – provision of $10.7 million).

4. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)		**As at September 30, 2020**		As at December 31, 2019
Investment in Elliott (Note 13(b))	**$**	**-**	$	78.1
Other investments		**13.5**		11.4
Duty deposits recoverable, net (Note 14)		**45.2**		32.4
Other deposits, loans, advances and long-term assets		**51.8**		51.8
	$	**110.5**	$	173.7

The duty deposits recoverable, net balance represents US-dollar anti-dumping and countervailing duty cash deposits paid in excess of the calculated expense accrued at September 30, 2020 (Note 14).

5. Operating Loans and Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)		**As at September 30, 2020**		As at December 31, 2019
Canfor (excluding Vida and CPPI)				
Available operating loans:				
Operating loan facility	**$**	**550.0**	$	550.0
Revolving credit facility		**200.0**		100.0
Facilities for letters of credit		**70.0**		70.0
Total operating loan facilities		**820.0**		720.0
Operating loan facility drawn		**-**		(350.0)
Letters of credit		**(64.9)**		(65.2)
Total available operating loan facilities - Canfor	**$**	**755.1**	$	304.8
Vida				
Available operating loans:				
Operating loan facilities	**$**	**74.6**	$	71.0
Overdraft facilities		**21.6**		21.5
Total operating loan facilities		**96.2**		92.5
Operating loan facilities drawn		**(0.3)**		(0.2)
Overdraft facilities drawn		**(13.9)**		(17.8)
Total available operating loan facilities - Vida	**$**	**82.0**	$	74.5
CPPI				
Available operating loans:				
Operating loan facility	**$**	**110.0**	$	110.0
Letters of credit		**(12.9)**		(13.2)
Operating loan facility drawn		**-**		(14.0)
Total available operating loan facility - CPPI	**$**	**97.1**	$	82.8
Consolidated:				
Total operating loan facilities	**$**	**1,026.2**	$	922.5
Total operating loan facilities drawn	**$**	**14.2**	$	382.0
Total available operating loan facilities	**$**	**934.2**	$	462.1

Interest is payable on Canfor's committed operating loan facility (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.

On June 11, 2020, Canfor (excluding Vida and CPPI) increased the principal of its committed revolving credit facility by $100.0 million to $200.0 million, with a maturity date of June 10, 2021. Terms of the revolving facility are largely consistent with those of Canfor's existing committed operating loan facility.

Canfor (excluding Vida and CPPI) has a separate facility to cover letters of credit. At September 30, 2020, $62.5 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 1.0% to 1.3%. Vida also has separate overdraft facilities with fixed interest rates ranging from 1.7% to 4.7%.

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, 2020, 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, 2020**		As at December 31, 2019
Canfor (excluding Vida and CPPI)				
CAD$225.0 million, floating interest, repayable January 2, 2024	**$**	**225.0**	$	225.0
US$200.0 million, floating interest, repayable January 2, 2027		**267.9**		259.7
US$100.0 million, fixed interest of 4.4%, repayable in three equal tranches on October 2, 2023, 2024 and 2025		**134.0**		129.9
Other (US$3.9 million)[1]		**5.3**		9.9
Vida				
SEK 129.5 million, floating interest, repayable in instalments up to December 31, 2020[2]		**19.0**		10.4
SEK 9.5 million, floating interest, repayable April 30, 2022		**1.4**		2.0
SEK 2.0 million, floating interest, repayable August 31, 2024		**0.3**		0.3
SEK 2.6 million, floating interest, repayable April 30, 2022		**0.4**		0.5
AUD 0.6 million, floating interest, with no fixed maturity date		**0.5**		7.0
CPPI				
CAD $50.0 million, floating interest, repayable September 30, 2022		**50.0**		50.0
Term debt at end of period	**$**	**703.8**	$	694.7
Less: Current portion		**(20.5)**		(13.0)
Long-term portion	**$**	**683.3**	$	681.7

[1] Amount relates to net financing for specific capital projects at Canfor's U.S. sawmills.
[2] Renewed annually.

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 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, 2020, 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, 2020, the fair value of the Company's term debt is $711.8 million (December 31, 2019 - $700.6 million) determined based on market rates for the term debt with similar characteristics and risk profile.

6. Employee Future Benefits

For the three and nine months ended September 30, 2020, defined benefit plan actuarial losses of $17.9 million and $26.9 million (before tax), respectively, were recognized in other comprehensive income (loss), reflecting a lower discount rate used to value the net defined benefit obligations, offset in part by a higher than anticipated return on plan assets.

For the three and nine months ended September 30, 2019, the Company recognized actuarial gains in other comprehensive income (loss) of $5.8 million and $10.9 million (before tax), respectively.

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, 2020	**2.7%**	**2.7%**
June 30, 2020	3.0%	3.0%
December 31, 2019	3.0%	3.0%
September 30, 2019	3.0%	3.0%
June 30, 2019	3.0%	3.0%
December 31, 2018	3.6%	3.6%

7. Assets Held for Sale

On March 9, 2020, the Company completed the sale of the Vavenby forest tenure to Interfor Corporation for net proceeds of $56.5 million, including working capital and other adjustments. The sale of the remaining Vavenby sawmill assets and liabilities to a third-party for proceeds of $6.0 million (to be paid in instalments), was completed on August 20, 2020.

During the second quarter of 2020, the Company announced its plans to permanently close its Isle Pierre sawmill located in British Columbia. As a result of the announced closure, the assets were assessed for impairment in the second quarter of 2020, resulting in the recognition of a $5.4 million loss (before tax) recognized as a component of 'Restructuring, Mill Closure and Severance Costs, Net' on the consolidated statement of income (loss). During the third quarter of 2020, as Management intends to sell the Isle Pierre property, plant and equipment in its current condition, the related assets and liabilities of $3.0 million and $0.8 million, respectively, were reclassified to 'Held for Sale' at September 30, 2020, with no further impairment adjustment required upon initial classification in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*.

8. Financial Instruments

Canfor's cash and cash equivalents, trade and other accounts receivable, certain long-term investments and advances, accounts payable and accrued liabilities, other liabilities, operating loans, and term debt are classified as measured at amortized cost in accordance with IFRS 9 *Financial Instruments*. The carrying amounts of these instruments, excluding term debt, approximate fair value at September 30, 2020 and December 31, 2019.

Derivative instruments and investments in debt and equity securities (excluding associates accounted for under the equity method) are classified as measured at fair value through profit or loss. The put liability is measured initially at fair value, with subsequent gains and losses recognized in 'Other Equity'. 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, 2020**	As at December 31, 2019
Financial assets measured at fair value			
Investments	Level 1	**$ 12.9**	$ 10.7
Derivative financial instruments	Level 2	**-**	0.3
		$ 12.9	$ 11.0
Financial liabilities measured at fair value			
Derivative financial instruments	Level 2	**1.1**	-
Put liability	Level 3	**127.1**	111.9
		$ 128.2	$ 111.9

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

	3 months ended September 30,		9 months ended September 30,	
(millions of Canadian dollars, unaudited)	**2020**	2019	**2020**	2019
Interest rate swaps	**$ -**	$ -	**$ (0.4)**	$ -
Lumber futures	**(5.2)**	(0.1)	**(6.2)**	5.3
Foreign exchange forward contracts	**(2.7)**	-	**(1.8)**	(31.2)
Loss on derivative financial instruments	**$ (7.9)**	$ (0.1)	**$ (8.4)**	$ (25.9)

The Company has no lumber futures contracts outstanding as at September 30, 2020.

During the three and nine months ended September 30, 2020, losses of $2.9 million and $9.3 million, respectively, were recognized in 'Other Equity' on the Company's consolidated balance sheet following remeasurement of the put liability associated with the acquisition of Vida.

9. Income Taxes

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2020	3 months ended September 30, 2019	9 months ended September 30, 2020	9 months ended September 30, 2019
Current	**$ (60.0)**	$ 31.9	**$ (34.5)**	$ 69.0
Deferred	**(11.5)**	1.7	**(20.4)**	7.4
Income tax recovery (expense)	**$ (71.5)**	$ 33.6	**$ (54.9)**	$ 76.4

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, 2020	3 months ended September 30, 2019	9 months ended September 30, 2020	9 months ended September 30, 2019
Income tax recovery (expense) at statutory rate – 27% (2019 – 27%)	**$ (77.6)**	$ 37.1	**$ (72.4)**	$ 81.0
Add (deduct):				
Non-taxable income (loss) related to non-controlling interests	**0.1**	(0.1)	**(0.2)**	0.1
Entities with different income tax rates and other tax adjustments	**5.6**	(2.9)	**18.7**	0.4
Permanent difference from capital gains and losses and other non-deductible items	**0.4**	(0.5)	**(1.0)**	(5.1)
Income tax recovery (expense)	**$ (71.5)**	$ 33.6	**$ (54.9)**	$ 76.4

In addition to the amounts recorded to net income (loss), a tax recovery of $4.9 million was recorded to other comprehensive income (loss) for the three months ended September 30, 2020 in relation to the actuarial losses on defined benefit plans (three months ended September 30, 2019 – expense of $1.6 million). For the nine months ended September 30, 2020, a tax recovery of $7.3 million (nine months ended September 30, 2019 – expense of $3.0 million).

Also included in other comprehensive income (loss) for the nine months ended September 30, 2020, a tax recovery of $6.3 million related to foreign exchange differences on translation of investments in foreign operations (three months ended September 30, 2020 – nil). For the nine months ended September 30, 2019, a tax recovery of $1.1 million was recognized (three months ended September 30, 2019 - expense of $0.5 million).

10. Earnings (Loss) Per Share

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

	3 months ended September 30, 2020	3 months ended September 30, 2019	9 months ended September 30, 2020	9 months ended September 30, 2019
Weighted average number of common shares	**125,219,400**	125,219,400	**125,219,400**	125,219,400

As at September 30, 2020 and October 22, 2020 there were 125,219,400 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, 2020	3 months ended September 30, 2019	9 months ended September 30, 2020	9 months ended September 30, 2019
Accounts receivable	**$ (34.9)**	$ 42.0	**$ (76.9)**	$ 7.3
Inventories	**25.1**	86.7	**95.0**	134.5
Prepaid expenses and other	**15.7**	8.1	**(9.4)**	(13.2)
Accounts payable and accrued liabilities, current portion of deferred reforestation obligations and other current liabilities	**71.4**	(73.7)	**46.1**	(87.5)
Net change in non-cash working capital	**$ 77.3**	$ 63.1	**$ 54.8**	$ 41.1

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.

The Company's panels business does not meet the criteria to be reported fully as a separate segment and is included in 'Unallocated & Other' below.

(millions of Canadian dollars, unaudited)	Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment	Consolidated
3 months ended September 30, 2020					
Sales from contracts with customers	**$ 1,324.1**	**$ 226.3**	**$ -**	**$ -**	**$ 1,550.4**
Sales to other segments	**58.8**	**0.1**	**-**	**(58.9)**	**-**
Operating income (loss)	**336.7**	**(27.6)**	**(9.5)**	**-**	**299.6**
Amortization	**74.3**	**18.9**	**0.3**	**-**	**93.5**
Capital expenditures[3]	**14.7**	**8.1**	**0.3**	**-**	**23.1**
3 months ended September 30, 2019					
Sales from contracts with customers	$ 874.6	$ 216.8	$ -	$ -	$ 1,091.4
Sales to other segments	48.3	0.1	-	(48.4)	-
Operating income (loss)	(66.5)	(44.0)	(9.8)	-	(120.3)
Amortization	69.0	23.7	0.2	-	92.9
Capital expenditures[3]	49.7	26.0	0.7	-	76.4
9 months ended September 30, 2020					
Sales from contracts with customers	**$ 3,083.9**	**$ 752.5**	**$ -**	**$ -**	**$ 3,836.4**
Sales to other segments	**155.5**	**0.2**	**-**	**(155.7)**	**-**
Operating income (loss)	**355.0**	**(27.8)**	**(19.5)**	**-**	**307.7**
Amortization	**219.5**	**60.1**	**0.9**	**-**	**280.5**
Capital expenditures[3]	**67.3**	**39.1**	**1.2**	**-**	**107.6**
Identifiable assets	**3,410.4**	**849.8**	**295.6**	**-**	**4,555.8**
9 months ended September 30, 2019					
Sales from contracts with customers	$ 2,712.8	$ 840.3	$ -	$ -	$ 3,553.1
Sales to other segments	173.2	0.1	-	(173.3)	-
Operating income (loss)	(199.9)	(7.5)	(27.3)	-	(234.7)
Amortization	197.1	69.3	0.6	-	267.0
Capital expenditures[3]	155.0	75.9	2.2	-	233.1
Identifiable assets	3,469.3	893.0	287.8	-	4,650.1

[3]Capital expenditures represent cash paid for capital assets during the periods, excluding assets purchased as part of the acquisition of Bergs sawmill assets and second phase acquisition of Elliott in 2020 (Note 13), as well as the acquisition of Vida in 2019. Pulp & Paper includes capital expenditures by CPPI that were partially financed by government grants.

Geographic information

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

	3 months ended September 30,				9 months ended September 30,			
(millions of Canadian dollars, unaudited)		**2020**		2019		**2020**		2019
Sales by location of customer								
Canada	**10%**	**$ 146.6**	10%	$ 109.4	**10%**	**$ 367.8**	10%	$ 361.7
Asia	**14%**	**212.2**	20%	215.9	**18%**	**696.2**	24%	856.2
United States	**63%**	**979.6**	51%	558.3	**55%**	**2,119.8**	49%	1,746.0
Europe	**12%**	**190.9**	16%	178.5	**14%**	**554.6**	14%	489.4
Other	**1%**	**21.1**	3%	29.3	**3%**	**98.0**	3%	99.8
	100%	**$ 1,550.4**	100%	$ 1,091.4	**100%**	**$ 3,836.4**	100%	$ 3,553.1

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 Swedish Krona ("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, which included the retention of Bergs employees, 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 recognized amounts of identifiable net assets acquired by Vida (at 100%) at the acquisition date:

(millions of Canadian dollars, unaudited)		
Land and buildings	$	12.4
Property, plant and equipment (including leases)		33.2
Non-cash working capital, net (including inventory)		14.6
Deferred tax liability on fair value adjustments		(3.2)
Total preliminary net identifiable assets	$	57.0
Preliminary goodwill		1.7
Total preliminary consideration	$	58.7

Preliminary amounts may be revised as the Company completes an internal valuation of property, plant and equipment and finalizes its purchase price allocation in the fourth quarter of 2020.

The Company incurred acquisition-related costs of $0.4 million which have been expensed as incurred and included in 'Selling and Administration Costs' on the consolidated statement of income (loss).

(b) Elliott Sawmilling Co., LLC

On May 31, 2019, the Company completed the first of a two-phase purchase of 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). Elliott is located in Estill, South Carolina, and adds 210 million board feet of high-value SYP lumber production capacity. In accordance with IAS 28 *Investments in Associates and Joint Ventures*, the first phase (49%) purchase of $52.0 million (US$38.5 million, the first instalment) was recognized as an equity investment, accounted for under the equity method.

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%. As a result, the equity investment was derecognized, and Elliott's results were consolidated into Canfor's on the May 31, 2020 acquisition date in accordance with IFRS 3.

The tables below summarize the consideration paid for Elliott and revised preliminary amounts of assets acquired and liabilities assumed on the acquisition date:

(millions of Canadian dollars, unaudited)		
Cash consideration (first and second instalments and working capital adjustment)[4]	$	107.1
Consideration payable (third instalment of US$35.0 million, net of term loan facility)		41.3
Total consideration	$	148.4

[4] Reflects foreign exchange movements of $0.6 million related to timing of payments.

Cash	$	4.1
Land and buildings		9.0
Property, plant and equipment[5]		35.9
Non-cash working capital, net		6.8
Total preliminary net identifiable assets	$	55.8
Preliminary goodwill[5]		92.0
Deferred tax asset on fair value adjustments, net		0.6
Total consideration	$	148.4

[5] Adjustments made during the three months ended September 30, 2020, include an increase in the fair value of property, plant and equipment of $11.0 million, with a corresponding decrease in goodwill.

Revised preliminary amounts reflect retrospective adjustments to property, plant and equipment fair values following the completion of an internal valuation in the third quarter of 2020. Preliminary amounts may be revised further as the Company finalizes its purchase price allocation in the fourth quarter of 2020.

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 countervailing and anti-dumping duties. As a result of the DOC's investigation, countervailing duties ("CVD") and anti-dumping duties ("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%, resulting in a combined cash deposit rate at September 30, 2020 of 20.52%.

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 NAFTA and through the World Trade Organization, where Canadian litigation has proven successful in the past.

First Period of Review ("POR1")

Despite cash deposits being made at rates determined by the DOC in 2017 (20.52%), the final liability associated with duties is not determined until the completion of administrative reviews performed by the DOC. For the CVD rate, the first period of review was based on sales and cost data through 2017 and 2018, while the ADD rate was based off data from July 2017 to December 2018. For the first period of review, the Company accrued the ADD expense at an estimated rate of 2.6% and recorded the CVD expense at the DOC's cash deposit rate of 13.24% (combined rate of 15.84%).

In early 2020, the DOC announced the preliminary results for the first period of review. The Company's preliminary CVD cash deposit rate was determined to be 2.93% for 2017 and 2.61% for 2018 (versus a cash deposit rate of 13.24%), while the preliminary ADD cash deposit rate was 2.02% for the entire first period of review (versus a cash deposit rate of 7.28% and estimated accrual rate of 2.6%). For the Company, the difference between the combined cash deposit rate of 20.52% and the combined preliminary DOC rates for POR1 is currently estimated at $218.8 million (US$163.3 million).

Upon finalization of these rates (currently anticipated towards the end of the fourth quarter of 2020), the Company's current combined cash deposit rate of 20.52% will be reset to the final rates as determined in the first period of review (4.63% based on the preliminary determination). This new cash deposit rate will apply on the Company's Canadian lumber shipments destined to the United States until completion of the administrative review for the second period of review (anticipated in 2021).

In addition, upon finalization of these rates, an additional recovery will be recognized in the Company's consolidated financial statements to reflect the difference between the accrual rate of 15.84% and final rates as established for the first period of review. This additional recovery is currently estimated at $141.6 million (US$105.7 million).

Despite the reduced preliminary rates for the first period of review, 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.

Second and Third Periods of Review ("POR 2" and "POR 3")

The second period of review is based on sales and cost data in 2019. While the Company was unable to estimate an applicable CVD rate separate from the cash deposit rate for 2019, ADD was expensed at an estimated rate of 16.0%, resulting in a combined rate of 29.24% (versus the cash deposit rate of 20.52%). In the second quarter of 2020, Canfor was selected as a "mandatory respondent" to the CVD and ADD investigations for the second period of review and will therefore be subject to company specific duties for this period.

On January 1, 2020, the Company moved into the third period of review, which is based on sales and cost data in 2020. The Company continues to expense CVD at the cash deposit rate of 13.24%, with ADD expensed at an estimated rate of 5.0% for POR3 (current combined CVD and ADD rate of 18.24%). The estimated ADD accrual rate for POR3 decreased from an estimated rate of 8.0% at June 30, 2020, principally driven by significantly improved lumber pricing in the third quarter of 2020, resulting in an ADD recovery of $7.2 million recognized in the three months ended September 30, 2020.

Summary

As at September 30, 2020, Canfor has paid cumulative cash deposits of $547.5 million. For accounting purposes, a net duty recoverable of $45.2 million is included on the Company's consolidated balance sheet (Note 4) reflecting differences between the cash deposit rate (20.52%) and the Company's combined accrual rates for each period of review (POR1: 15.84%, POR2: 29.24%, and POR3: 18.24%).

For the nine months ended September 30, 2020, the Company recorded a net duty expense of $114.3 million (three months ended September 30, 2020 - $50.7 million), comprised of cash deposits paid of $126.1 million (three months ended September 30, 2020 - $64.2 million), and a net recovery of $11.8 million (three months ended September 30, 2020 – recovery of $13.5 million), including the aforementioned $7.2 million recovery in 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 consolidated statement of income (loss) while the Administrative Reviews are taking place. Changes to the DOC's existing CVD and ADD rates during the course of each Administrative Review may also result in material adjustments to the consolidated statement of income (loss).

15. Contingencies

Coronavirus Outbreak

On March 11, 2020, the World Health Organization declared the coronavirus ("COVID-19") outbreak a pandemic. As an essential service, the Company has continued to operate, for the most part, with some minor disruptions, increased safety protocols and additional cleaning and sanitizing activities. The Company continues to closely monitor the impacts of COVID-19, however, and should the duration, spread or intensity of the pandemic further develop, the supply chain, market pricing and customer demand could be further affected, impacting the Company's operating plan, liquidity, cash flows, and the valuation of its long-lived assets.

16. Subsequent Events

Subsequent to quarter-end, the Company completed the sale of its currently idled PolarBoard Oriented Strand Board ("OSB") plant and its permanently closed Tackama plywood plant to a third-party for estimated proceeds of $10.0 million.

In addition, in mid-October, Management made the decision to extend the outage on CPPI's recovery boiler number five ("RB5") to enable the replacement of the lower furnace. The estimated capital cost of the lower furnace upgrade is $30 million, with the work anticipated to take between 70-80 days on one production line, which will reduce Northern Bleached Softwood Kraft ("NBSK") pulp production by 60,000 to 70,000 tonnes. This lower furnace replacement, in conjunction with the upper furnace upgrades, is projected to ensure RB5's continued operation for another 15 to 20 years.