2023

MANAGEMENT'S DISCUSSION & ANALYSIS

CANFOR CORPORATION

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This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the year ended December 31, 2023 relative to the year ended December 31, 2022, and the financial position of the Company at December 31, 2023. It should be read in conjunction with Canfor's Annual Information Form and its audited consolidated financial statements and accompanying notes for the years ended December 31, 2023 and 2022 (available at www.canfor.com). The financial information contained in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income (Loss) before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Income (Loss) before Amortization, Asset Write-Downs and Impairments, and Adjusted Operating Income (Loss) which Canfor considers to be a relevant indicator for measuring trends in the performance of each of its operating segments and the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. Reference is also made to Adjusted Shareholder Net Income (Loss) (calculated as Shareholder Net Income (Loss) less specific items affecting comparability with prior periods – for the full calculation, see reconciliation included in the section "Overview of Consolidated Results – 2023 Compared to 2022") and Adjusted Shareholder Net Income (Loss) per Share (calculated as Adjusted Shareholder Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Income (Loss) before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Income (Loss), Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share are not generally accepted earnings measures under IFRS and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, Canfor's Operating Income (Loss) before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Income (Loss) before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Income (Loss), Adjusted Shareholder Net Income (Loss), and Adjusted Shareholder Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income (Loss) before Amortization, Asset Write-Downs and Impairments to Operating Income (Loss) and Adjusted Shareholder Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in the "Non-IFRS Financial Measures" section of this MD&A.

Also in this MD&A, reference is made to net debt (cash), net debt (cash) to total capitalization and return on invested capital ("ROIC") which the Company considers to be relevant performance indicators that are not generally accepted under IFRS. Therefore, these indicators, defined herein, may not be directly comparable with similarly titled measures used by other companies. Refer to the "Non-IFRS Financial Measures" section of this MD&A for further details.

Factors that could impact future operations are also discussed. These factors may be influenced by known and unknown risks and uncertainties that could cause the actual results to be materially different from those stated in this discussion. Factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions; product selling prices; raw material and other operating costs; currency exchange rates; interest rates; changes in law and public policy; the outcome of labour and trade disputes; and opportunities available to or pursued by Canfor.

All financial references are in millions of Canadian dollars unless otherwise noted. Certain comparative amounts have been reclassified to conform to current presentation. The information in this report is as at March 5, 2024.

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.

2023 HIGHLIGHTS

2023 was a challenging year for Canfor, as the weak global lumber market conditions experienced late in 2022 continued throughout the current year. Ongoing inflationary pressures and high interest rates gave rise to persistent affordability concerns for consumers, reducing global lumber demand and increasing lumber inventory levels in most global regions. Despite the economic uncertainty, demand in the repair and remodel segment remained strong through 2023, especially in North America, exceeding levels observed before the pandemic.

In response to these global market conditions as well as a constrained fibre supply environment, the Company reduced production at its Western Canadian operations by a total of 760 million board feet in 2023. In the US South, the Company successfully started-up its greenfield sawmill in DeRidder, Louisiana, early in 2023, and continues work on two major growth projects at Urbana, Arkansas and Axis, Alabama.

In British Columbia ("BC"), the Company continued to face significant challenges accessing economically viable fibre, both logs and residuals, to support BC operations, resulting in closure announcements early in 2023. Canfor Pulp Products Inc. ("CPPI") made the decision to permanently close the pulp line at its Prince George Pulp and Paper Mill ("PG"). In connection with this closure, CPPI's Intercontinental ("Intercon") Northern Bleached Softwood Kraft ("NBSK") pulp mill was successfully converted to provide slush pulp to its specialty paper facility, formerly supplied by PG.

In addition, the Company made the difficult decision to further restructure its lumber operations in BC, by permanently closing its Chetwynd sawmill and pellet plant and temporarily closing its Houston sawmill. Late in 2023, the Company also announced a fibre-driven indefinite curtailment at its Polar sawmill starting in January 2024.

For 2023, Canfor reported an operating loss of $531.6 million, compared to operating income of $1,074.1 million in 2022. After taking account of adjusting items, including inventory valuation adjustments and an asset write-down and impairment charge in 2022, the Company's adjusted operating loss was $588.8 million for the current year (adjusted shareholder net loss per share of $2.79), compared to adjusted operating earnings of $1,306.2 million for the prior year (adjusted shareholder net income per share of $7.15).

2023 Lumber Segment Highlights

For the lumber segment, the adjusted operating loss for 2023 was $403.5 million compared to the adjusted operating earnings of $1,421.9 million in 2022. These results were mostly driven by a substantial decline in global lumber market prices in the current year, principally reflecting a 50% decline in the average Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr, a 44% decline in the average Southern Yellow Pine ("SYP") East 2x4 #2 price and a 40% decline in the average SYP East 2x6 #2 price year-over-year. This downward pricing pressure was coupled with modestly lower production and shipment volumes in 2023, mainly due to the permanent and temporary curtailments at the Company's Western Canadian sawmills, slightly offset by a 3 cent, or 4%, weaker Canadian dollar (versus the US-dollar) in the current year.

North American lumber market conditions were under pressure for most of 2023, as persistent affordability constraints and a resultant decline in new home construction, was combined with an influx of lumber supply from Europe early in the year, which led to an uptick in North American lumber inventory levels and, consequently, a substantial drop in North American benchmark lumber prices. Despite these market conditions, the repair and remodel sector demand remained strong, especially in the first half of the year, with demand well above pre-pandemic levels throughout 2023, largely tied to an aging housing market.

Offshore lumber markets and pricing in Asia remained relatively soft throughout 2023, most notably in Japan and Korea, due to the combined impact of high inflation and interest rates, as well as elevated lumber inventory levels in those regions. In China, despite the introduction of government stimulus measures early in the year, lumber demand and pricing continued to be negatively impacted by high inventory levels through most of 2023 with an influx of supply from Europe and Russia into that region.

For 2023 overall, Europe also experienced a decline in lumber market conditions compared to the prior year. Early in the current year, European lumber demand and pricing saw a modest improvement, driven largely by a slight uptick in residential construction activity, particularly in the United Kingdom ("UK") combined with restricted lumber supply from Russia and Belarus. Despite remaining relatively stable through to the middle of the year, European lumber demand and pricing declined significantly in the latter part of 2023 primarily correlated with a substantial reduction in home building activity.

2023 Pulp and Paper Segment Highlights

For the pulp and paper segment, 2023 was a difficult year, as a deterioration in global pulp market fundamentals was combined with ongoing cost and operational impacts driven by sustained fibre shortages in BC.

While global pulp market conditions were positive heading into 2023, market fundamentals experienced a sharp decline late in the first quarter of 2023 and remained challenging through most of the year, as purchasing activity waned and global pulp producer inventories climbed well above the balanced range. As a result, prices to China, the world's largest consumer of softwood pulp, dropped from a high of US$913 per tonne in February to a low of US$648 per tonne in June. Late in the year, however, as global producer inventories began to reduce, global pulp pricing saw some modest upward momentum, with China pulp prices finishing the year at US$730 per tonne. For the 2023 year as a whole, NBSK pulp list prices to China averaged US$747 per tonne, a decrease of US$202 per tonne, or 21%, from the average price in 2022.

As a result, CPPI's adjusted operating loss was $129.9 million for the current year compared to an adjusted operating loss of $58.6 million for the prior year. These results largely reflected substantially lower average NBSK pulp unit sales realizations, tied directly to the weak global pulp market conditions through most of the year, offset somewhat, by the 4% weaker Canadian dollar. Operationally, current year results were impacted by reduced pulp production and shipments associated with the aforementioned operational changes that took effect early in the year. Improved pulp productivity at CPPI's Northwood NBSK pulp mill ("Northwood") and Intercon pulp mill year-over-year however, helped mitigate, to a degree, the impact of the PG pulp mill closure, combined with improved pulp unit manufacturing costs and higher energy revenues in 2023.

While CPPI did not record any additional asset write-down and impairment charge in 2023, CPPI continues to closely monitor the direct and indirect impacts associated with the constraints on economic fibre, especially in the near-term. If the availability of economically viable fibre within BC is further reduced, CPPI's production, shipments and cost structure will be further affected. These factors could impact CPPI's operating plan, liquidity, cash flows and the valuation of long-lived assets.

COMPANY OVERVIEW

Canfor is a global leader in manufacturing high-value, low-carbon forest products, including dimension and specialty lumber, engineered wood products, pulp and paper, wood pellets, and green energy. Headquartered in Vancouver, BC, Canfor produces renewable products from sustainably managed forests, at more than 50 facilities across its diversified operating platform in Canada, the United States ("US"), and Europe. The Company has a 70% interest in the Vida Group ("Vida"), one of Sweden's largest sawmilling companies, and also owns a 54.8% interest in CPPI, which is one of the largest global producers of NBSK pulp and a leading producer of high-performance kraft paper. As of December 31, 2023, Canfor employed 7,580 people, of which 1,004 were employed by CPPI.

Significant changes to the Company's business in 2023 and early in 2024 include the following:

- On January 3, 2023, the Company announced an extension of BC sawmill curtailments in the month due to ongoing weak market conditions and lack of available economic fibre.
- On January 25, 2023, the Company announced the restructuring of its BC operations to better align manufacturing capacity in the region with available long-term fibre supply, resulting in the permanent closure of its Chetwynd sawmill and pellet plant and the temporary closure of its Houston sawmill for an extended period to facilitate a potential redevelopment on the site. The permanent and temporary curtailment of these aforementioned facilities were completed in April 2023 following an orderly wind-down, removing approximately 750 million board feet of annual Western SPF production capacity. Subsequently, on September 14, 2023, the Company announced its plan to invest approximately $200 million in a new, state-of-the-art manufacturing facility in Houston, British Columbia. The facility will have an annual production capacity of approximately 350 million board feet.
- Also, in January 2023, CPPI announced the decision to restructure its operating footprint to align its manufacturing capacity with the long-term supply of economic residual fibre and, as a result, in April 2023, CPPI wound down and permanently closed the pulp line at its PG NBSK pulp and paper mill. In connection with this closure, Intercon was successfully converted to provide slush pulp to its specialty paper facility. The combined impact of these operating structure changes was a reduction of approximately 280,000 tonnes of market kraft pulp production annually.

- In July 2023, NBSK pulp production was impacted by a labour dispute at the Ports of Vancouver and Prince Rupert, which put pressure on an already constrained logistics network in BC. As a direct result, with pulp mill inventories at capacity, CPPI curtailed Northwood for approximately one week, with 10,000 tonnes of reduced NBSK pulp production. Furthermore, while Northwood successfully completed its scheduled maintenance in September 2023, the restart was delayed into the fourth quarter of 2023 by numerous operational challenges unrelated to the scheduled maintenance downtown, resulting in approximately 40,000 tonnes of reduced NBSK pulp production late in 2023.
- On November 14, 2023, the Company announced an indefinite curtailment of its Polar facility due to the shortage of economically available fibre in that region. The curtailment will reduce Western SPF production by approximately 140 million board feet over the first six months of 2024.
- On December 7, 2023, Vida announced that it will invest approximately $85 million (700 million SEK) at its Bruza Sawmill in Hjältevad, Sweden, increasing its annual production capacity by approximately 65 million board feet. Construction will commence in the spring of 2024 and is expected to be completed in 2026.
- On February 7, 2024, CPPI announced that it had entered into an asset purchase agreement to sell its Taylor Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill site for a price of $7.0 million. The transaction is anticipated to close in the first quarter of 2024.

Lumber

As at December 31, 2023, Canfor's lumber operations had an annual production capacity of approximately 6.7 billion board feet. The majority of lumber produced by Canfor from its facilities is construction and high-value specialty grade dimension lumber that ranges in size from one by three inches to two by twelve inches and in lengths from six to twenty-six feet. A significant and increasing proportion of Canfor's lumber production is comprised of specialty products that command premium prices and high-value products, including Square Edge lumber for the North American market, J-grade lumber for the Japanese market, and machine stress rated ("MSR") lumber used in engineered applications such as roof trusses and floor joists. As a result of its recent acquisitions, Canfor has expanded its product offering to include high-value engineered wood products, higher-grade MSR lumber, premium one-inch boards, as well as an array of custom specialty products, including strength-rated trusses, beams, and tongue-and-groove timber.

Canfor's North American lumber operations also include one finger-joint plant, two glulam plants, one whole log chipping plant, and a trucking division. As at December 31, 2023, the Company operated a pellet plant at the Fort St. John sawmill site. Canfor's North American lumber business segment also includes a 60% interest in Houston Pellet Inc., which has an annual capacity of approximately 200,000 tonnes of wood pellets. Canfor's European lumber operation includes its 70% interest in Vida's ten value-added facilities (including the manufacturing and selling of wood packaging, modular housing, industrial products and energy).

As at December 31, 2023, Canfor held approximately 9.9 million cubic metres (including Mackenzie) of annual harvesting rights for its solid wood operations under various forest tenures located in the interior region of BC and northern Alberta and harvests logs from those tenures to supply its Western Canadian lumber operations. Any mill requirements shortfalls are made up of wood purchased from other tenure holders in those areas. The wood fibre requirements in the US and Europe are met through open market purchases, substantially from private timberland owners.

Canfor markets lumber products throughout North America and overseas through its sales offices in Canada, the US, Japan, Sweden, the UK, Denmark, the Netherlands and Australia. In addition to its production, Canfor also markets lumber produced externally to complement its product line. While a significant proportion of Canfor's product is sold to markets in the US, shipments into Europe have increased following the acquisition of Vida. In contrast, volumes to other offshore markets remain steady. The Company transports substantially all lumber shipped domestically (in the US, Canada, and Sweden) by truck and rail, while the vast majority of products sold offshore are transported by container ship and breakbulk.

Pulp and Paper

During 2023, Canfor's pulp and paper segment was comprised of two NBSK pulp mills, one NBSK pulp and paper mill located in Prince George, BC, and a BCTMP mill located in Taylor, BC, all of which are owned by CPPI. As at December 31, 2023, CPPI produces NBSK pulp and specialty paper. NBSK is a primarily bleached product, although unbleached and semi-bleached grades were also produced by CPPI.

As at December 31, 2023, CPPI had an annual production capacity of approximately 780,000 tonnes of northern softwood market kraft pulp, the significant majority of which was bleached to become NBSK pulp, and approximately 140,000 tonnes of kraft paper.

As at December 31, 2023, CPPI also owned the Taylor BCTMP mill, located in Taylor, British Columbia. Subsequent to year-end, CPPI entered into an asset purchase agreement to sell its Taylor BCTMP mill site for total proceeds of $7.0 million. The transaction is anticipated to close in the first quarter of 2024.

Canfor supplies CPPI with residual wood chips and hog fuel (principally bark) produced at certain, specified sawmills. Prices paid by CPPI for residual wood chips are based on a pricing formula to reflect market prices and conditions, with hog fuel purchased by CPPI at market prices. CPPI also has fibre supply agreements with third parties to supplement its supply of wood chips and hog fuel.

Business Strategy

Canfor's overall business strategy and purpose is to be a global leader in supplying high-value, low-carbon forest products, including dimension and specialty lumber, engineered wood products, pulp and paper, wood pellets, and green energy to high-value customers, accomplished by:

- Attaining world-class safety performance;
- Achieving top-quartile margin performance while producing high-value products and maximizing the value from all available fibre sources;
- Implementing a sustainability strategy aimed at helping to protect our planet, supporting our people and communities, and producing forest and pulp and paper products that are an important part of a low-carbon economy;
- Growing an enterprise-wide culture of innovation, inclusion, diversity, respect, and engagement by attracting, retaining, and developing our employees;
- Expanding geographical markets, increasing market share of value-added products, and building strong long-term partnerships with valued customers;
- Attaining world-class supply chain performance and providing excellence in customer service; and
- Focusing on an efficient allocation of capital and deployment of resources to sustain top-quartile operational performance, capitalizing on attractive growth opportunities.

OVERVIEW OF CONSOLIDATED RESULTS – 2023 COMPARED TO 2022

Selected Financial Information and Statistics

(millions of Canadian dollars, except for per share amounts)		2023		2022
Sales	**$**	**5,426.6**	$	7,426.7
Operating income (loss) before amortization, asset write-downs and impairments[1,2]	**$**	**(111.2)**	$	1,609.9
Operating income (loss)	**$**	**(531.6)**	$	1,074.1
Adjusted operating income (loss) before amortization, asset write-downs and impairments[1,2,3]	**$**	**(168.4)**	$	1,703.4
Adjusted operating income (loss)[3]	**$**	**(588.8)**	$	1,306.2
Net income (loss)	**$**	**(348.5)**	$	861.1
Net income (loss) attributable to equity shareholders of the Company	**$**	**(326.1)**	$	787.3
Net income (loss) per share attributable to equity shareholders of the Company, basic and diluted	**$**	**(2.71)**	$	6.39
Adjusted net income (loss)[3]	**$**	**(335.8)**	$	880.4
Adjusted net income (loss) per share, basic and diluted[3]	**$**	**(2.79)**	$	7.15
ROIC – Consolidated[3]		**(11.4%)**		26.0%
Average exchange rate (US$ per Cdn$1.00)[4]	**$**	**0.741**	$	0.768
Average exchange rate (SEK per Cdn$1.00)[4]		**7.856**		7.753

[1] Amortization includes amortization of certain capitalized major maintenance costs.
[2] Adjusted for asset write-down and impairment charges of $138.6 million in 2022.
[3] Adjusted results and consolidated ROIC are non-IFRS financial measures. Refer to the "Non-IFRS Financial Measures" section for further details.
[4] Source – Bank of Canada (monthly average for the period).

Selected Cash Flow Information

(millions of Canadian dollars)	2023	2022
Operating income (loss) by segment:		
Lumber	**$ (348.7)**	$ 1,237.2
Pulp and Paper	**$ (127.5)**	$ (106.0)
Unallocated and Other	**$ (55.4)**	$ (57.1)
Total operating income (loss)	**$ (531.6)**	$ 1,074.1
Add: Amortization[5]	**$ 420.4**	$ 397.2
Add: Asset write-downs and impairments	**$ -**	$ 138.6
Total operating income (loss) before amortization, asset write-downs and impairments	**$ (111.2)**	$ 1,609.9
Add (deduct):		
Working capital movements	**$ 162.8**	$ 86.7
Defined benefit plan contributions, net	**$ (24.2)**	$ (12.2)
Income taxes paid, net	**$ (33.8)**	$ (462.6)
Adjustment to accrued duties[6]	**$ 100.7**	$ (156.3)
Other operating cash flows, net[7]	**$ 60.4**	$ 47.5
Cash from operating activities	**$ 154.7**	$ 1,113.0
Deduct:		
Capital additions, net	**$ (587.0)**	$ (625.3)
Finance expenses paid	**$ (33.6)**	$ (21.1)
Repayments and conversion of term debt	**$ (96.1)**	$ (0.4)
Share purchases	**$ (44.3)**	$ (78.9)
Purchase of long-term investments	**$ (59.4)**	$ -
Distributions to non-controlling interests	**$ (62.3)**	$ (62.8)
Acquisition of Millar Western	**$ -**	$ (434.0)
Foreign exchange gain (loss) on cash and cash equivalents	**$ (6.7)**	$ 26.9
Other, net[7]	**$ 10.6**	$ (12.6)
Change in cash / operating loans	**$ (724.1)**	$ (95.2)

[5] Amortization includes amortization of certain capitalized major maintenance costs.
[6] Adjusted to true-up preliminary anti-dumping duty deposits to the Company's current accrual rates.
[7] Further information on cash flows can be found in the Company's annual consolidated financial statements.

Analysis of Specific Items Affecting Comparability of Shareholder Net Income (Loss)

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except for per share amounts)	2023	2022
Shareholder net income (loss), as reported	**$ (326.1)**	$ 787.3
Foreign exchange (gain) loss on term debt	**$ (6.0)**	$ 10.8
Gain on derivative financial instruments	**$ (3.7)**	$ (2.5)
Asset write-downs and impairments	**$ -**	$ 84.8
Net impact of above items	**$ (9.7)**	$ 93.1
Adjusted shareholder net income (loss)[8]	**$ (335.8)**	$ 880.4
Shareholder net income (loss) per share (EPS), as reported	**$ (2.71)**	$ 6.39
Net impact of above items per share	**$ (0.08)**	$ 0.76
Adjusted shareholder net income (loss) per share[8]	**$ (2.79)**	$ 7.15

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

OPERATING RESULTS BY BUSINESS SEGMENT – 2023 COMPARED TO 2022

The following discussion of Canfor's operating results relates to the operating segments and the non-segmented items as per the Segment Information note in the Company's consolidated financial statements. Canfor's operations include the Lumber and Pulp and Paper segments.

Lumber

Selected Financial Information and Statistics – Lumber

Summarized results for the Lumber segment for 2023 and 2022 are as follows:

(millions of Canadian dollars, unless otherwise noted)		**2023**		**2022**
Sales[9]	**$**	**4,551.1**	$	6,341.3
Operating income (loss) before amortization, asset write-down and impairment[9]	**$**	**(16.0)**	$	1,623.9
Operating income (loss)[9]	**$**	**(348.7)**	$	1,237.2
Asset write-down and impairment	**$**	**-**	$	89.0
Inventory write-down (recovery), net	**$**	**(54.8)**	$	95.7
Adjusted operating income (loss)[10]	**$**	**(403.5)**	$	1,421.9
Capital expenditures (before acquisitions)	**$**	**510.4**	$	507.7
Average Western SPF 2x4 #2&Btr lumber price in US$[11]	**$**	**391**	$	783
Average Western SPF 2x4 #2&Btr lumber price in Cdn$[11,13]	**$**	**528**	$	1,020
Average SYP 2x4 #2 lumber price in US$[12]	**$**	**468**	$	829
Average SYP 2x4 #2 lumber price in Cdn$[12,13]	**$**	**632**	$	1,079
Average SYP 2x6 #2 lumber price in US$[12]	**$**	**386**	$	642
Average SYP 2x6 #2 lumber price in Cdn$[12,13]	**$**	**521**	$	836
US housing starts (thousand units SAAR)[14]		**1,415**		1,551
Production – Western SPF lumber (MMfbm)[15]		**2,071**		2,321
Production – SYP lumber (MMfbm)[15]		**1,727**		1,618
Production – European lumber (MMfbm)[15]		**1,319**		1,363
Shipments – Western SPF lumber (MMfbm)[16]		**2,119**		2,325
Shipments – SYP lumber (MMfbm)[16]		**1,716**		1,610
Shipments – European lumber (MMfbm)[16]		**1,532**		1,550

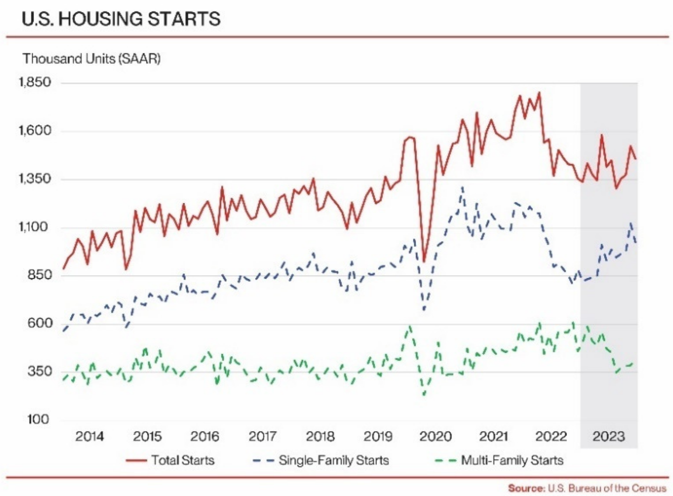
[9] 2023 includes sales of $1,333.2 million, operating income of $80.3 million and operating income before amortization of $149.1 million from European operations (2022 – sales of $1,611.1 million, operating income of $420.8 million and operating income before amortization of $486.8 million). Operating income from the European operations in 2023 includes $36.7 million (2022 - $37.2 million) of incremental amortization and other expenses driven by the purchase price allocation at the acquisition date.
[10] Adjusted operating income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[11] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.)
[12] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.)
[13] Average lumber prices in Cdn$ calculated as average price in US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average for the period.
[14] Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").
[15] Excluding production of trim blocks.
[16] Includes Canfor produced lumber, as well as lumber purchased for resale, remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

Markets

The weak global lumber market conditions and pricing seen at the end of 2022 lasted well into 2023, with global lumber market fundamentals remaining under pressure for most of the current year. General economic uncertainty, persistent inflationary cost pressures and a high interest rate environment continued throughout 2023, significantly impacting affordability and leading to lower levels of residential construction activity across the globe. Market-related curtailments and wildfires, particularly in Western Canada, as well as operational disruptions associated with geopolitical tensions, constrained lumber supply at certain times of the year and led to intermittent and short upticks in North American benchmark pricing. In the repair and remodeling sector, demand remained strong throughout 2023, particularly in the first half of the year, principally driven by an aging housing stock in North America. Despite the benefit of these supply pressures and the continued strength in the repair and remodel segment, affordability constraints weighed heavily on overall North American demand and US-dollar benchmark lumber prices throughout most of 2023.

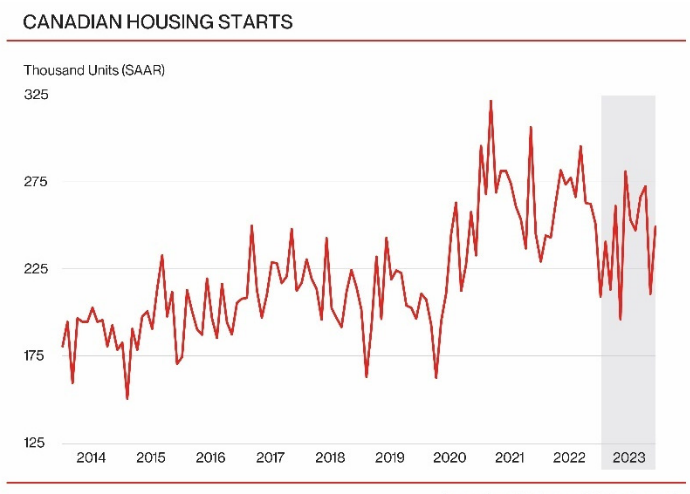
US housing starts, on a seasonally adjusted basis, averaged 1,415,000 units[17] in 2023, a decrease of 9% from 2022 (Chart 1). Single-family starts, which consume approximately three times as much lumber as multi-family starts, averaged 943,000 units[17], down 6% from 2022, principally reflecting the aforementioned persistent affordability challenges stemming from high inflation and rising interest rates through most of 2023. Multi-family starts experienced more pronounced decreases than that seen in single-family, declining from the near-record high levels in 2022 to average 459,000 units[17] in 2023, down 14% from the prior year.

Chart 1



In Canada, the housing market continued to weaken through 2023 with a seasonally adjusted annual rate of 242,000 units[18], a decline of 8% from 2022 (Chart 2), with multi-family starts making up 75% of overall starts in 2023 (2022 – 70%). Despite falling from 2022 levels, Canadian housing starts remained well above historical norms as underlying demand for housing continued to be solid, largely due to favorable demographic trends, particularly in urban centres.

Chart 2

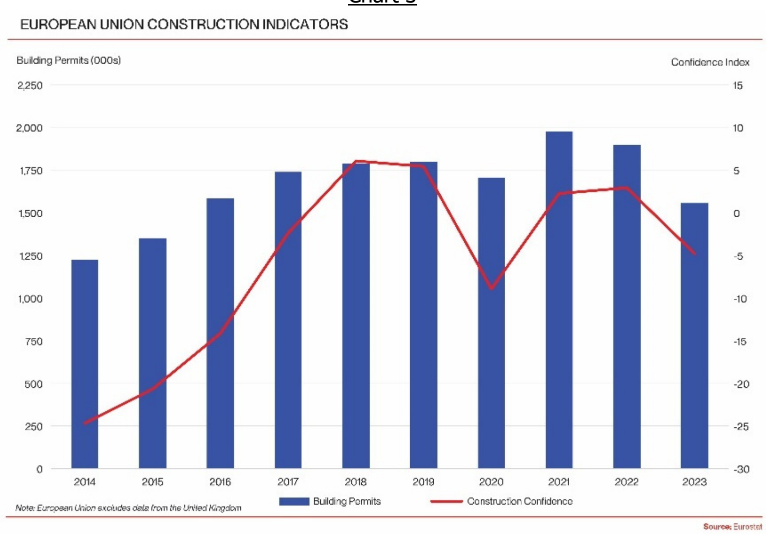


[17] US Bureau of the Census
[18] Canada Mortgage and Housing Corporation ("CMHC")

Offshore lumber markets and pricing in Asia remained relatively soft throughout 2023, most notably in Japan and Korea, due to the combined impact of high inflation and interest rates, as well as elevated lumber inventory levels in those regions. In China, despite the introduction of government stimulus measures early in the year, lumber demand and pricing continued to be negatively impacted by high inventory levels through most of 2023 with an influx of supply from Europe and Russia into that region.

For 2023 overall, Europe also experienced a decline in lumber market conditions compared to the prior year. Early in the current year, European lumber demand and pricing saw a modest improvement, driven largely by a slight uptick in residential construction activity, particularly in the UK combined with restricted lumber supply from Russia and Belarus. Despite remaining relatively stable through to the middle of the year, European lumber demand and pricing declined significantly in the latter part of 2023 primarily correlated with a substantial reduction in home building activity[19] (Chart 3).

Chart 3



[19] Eurostat

Sales

Revenues for the lumber segment were $4.6 billion for 2023, down 28% from $6.3 billion in 2022. This decline was primarily due to significantly lower lumber unit sales realizations across all of the Company's operating regions, driven by the substantial drop in global lumber pricing year-over-year (Chart 4). This was coupled with a 2% decline in shipment volumes, and offset slightly by a 3 cent, or 4%, weaker Canadian dollar (versus the US-dollar) in the current year.

Total lumber shipments were approximately 5.37 billion board feet for the year, down 2% from 5.49 billion board feet shipped in the previous year, largely associated with a 3% decrease in production volumes year-over-year, most notably in Western Canada.

The average North American Random Lengths Western SPF 2x4 #2&Btr price began the year at a low of US$335 per Mfbm, climbed to US$460 per Mfbm early in the first quarter, then declined throughout most of the year with a slight uptick in the third quarter, ending the year at US$440 per Mfbm. For the year overall, the Western SPF 2x4 #2&Btr price averaged US$391 per Mfbm, down US$392 per Mfbm, or 50%, from 2022, with similar notable decreases seen across key grades and wider-widths of Western SPF lumber, as outlined in the table below. As a result, the Company's Western SPF lumber unit sales realizations trended in the same direction, principally reflecting the declines in North American benchmark pricing year-over-year, combined with lower offshore unit sales realizations, and offset in part by the 4% weaker Canadian dollar (versus the US-dollar).

(Average Western SPF US$ price, per thousand board feet)[20]	**2023**	2022	Change
2x4 #2&Btr	**$ 391**	$ 783	$ (392)
2x4 #3	**$ 318**	$ 615	$ (297)
2x6 #2&Btr	**$ 400**	$ 710	$ (310)
2x10 #2&Btr	**$ 404**	$ 814	$ (410)

[20] Random Lengths Publications, Inc.

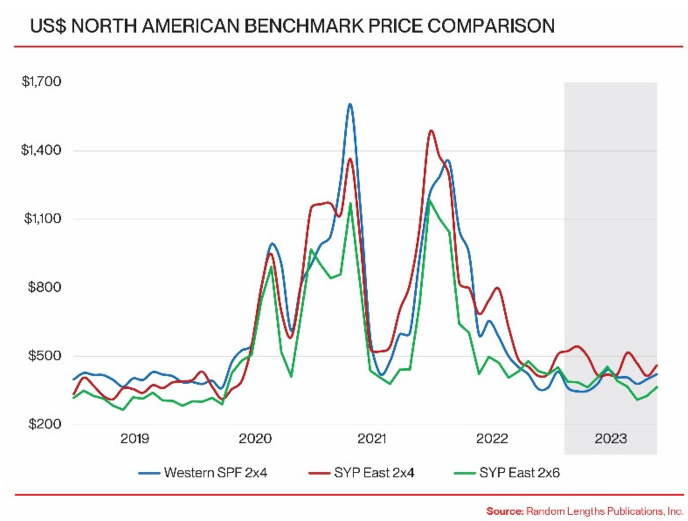
In 2023, the North American Random Lengths SYP East 2x4 #2 price moved similar to Western SPF, opening the year at a low of US$395 per Mfbm, rebounding in April to a price of US$545 per Mfbm, before declining through most of the year, ending December at US$470 per Mfbm. Consequently, for 2023 overall, the SYP East 2x4 #2 price dropped US$361 per Mfbm, or 44%, from 2022.

Wider-width SYP lumber products, including the SYP East 2x6 #2, experienced similar deteriorating trends throughout the current year as the Western SPF and SYP East 2x4 #2, with the SYP East 2x6 #2 averaging US$386 per Mfbm for 2023, a decrease of US$256 per Mfbm, or 40%, from 2022, as highlighted in the table below. These SYP benchmark pricing declines were directly reflected in the Company's average SYP lumber unit sales realizations in the current year compared to 2022.

(Average SYP East US$ price, per thousand board feet)[21]	**2023**	**2022**	**Change**
2x4 #2	**$ 468**	$ 829	$ (361)
2x6 #2	**$ 386**	$ 642	$ (256)
2x8 #2	**$ 361**	$ 591	$ (230)
2x10 #2	**$ 399**	$ 652	$ (253)
2x12 #2	**$ 574**	$ 925	$ (351)

[21] Random Lengths Publications, Inc.

Chart 4



European lumber unit sales realizations also experienced a significant decrease year-over-year principally reflecting a notable decline in European market pricing in the latter part of 2023, tied in part to the deterioration in global lumber market conditions, and, to a lesser extent, a 1% stronger Canadian dollar (versus the Swedish Krona "SEK").

Other revenues for the lumber segment (which are primarily comprised of residual fibre, pulp log and pellet sales as well as the Company's European operations' other related revenues) were slightly higher than the prior year, principally driven by an increase in residual fibre revenues from the Company's European operations, offset in part, by lower pellet sales in Western Canada and reduced engineered wood sales in the US South.

Operations

Total lumber production for 2023 was 5.12 billion board feet, down 3% from the prior year, primarily reflecting capacity reductions and mill closures in Western Canada, tied to the permanent closure of the Company's Chetwynd facilities and temporary closure of its Houston sawmill in April, as well as fibre and market-driven curtailments throughout the year (approximately 760 million board feet in 2023 versus 775 million board feet in 2022). In Europe, decreased production year-over-year was principally a result of intermittent log availability in the region, correlated in part to decreased log supply from Russia. These reductions were mitigated, in part, by a 7% increase in SYP production, largely attributable to the ramp-up of the Company's greenfield sawmill in DeRidder, Louisiana, early in 2023.

Lumber unit manufacturing and product costs were broadly in line with the prior year as higher per unit conversion costs were offset by lower log costs. The uplift in per unit conversion costs in 2023 was principally a result of rising energy costs and general inflationary pressures, most notably in Europe, and to a lesser extent, the US South, slightly offset by reduced cash spend in Western Canada associated with the permanent and temporary closures of Chetwynd and Houston, respectively. Lower log costs year-over-year were primarily driven by reduced market-based stumpage costs in BC (tied to the substantial drop in Western SPF benchmark lumber pricing in the current year), offset in part by higher log costs in Europe associated with log supply pressures in that region.

Asset Write-Downs and Impairments

An impairment expense of $89.0 million was recorded in 2022 on the property, plant and equipment and timber licenses for the Company's Western Canadian lumber operations, with no additional asset write-down or impairment charge recognized in the current year. See "Critical Accounting Estimates – Asset Write-Downs and Impairments" for further details.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[22]

Summarized results for the Pulp and Paper segment for 2023 and 2022 are as follows:

(millions of Canadian dollars, unless otherwise noted)		**2023**		2022
Sales	**$**	**875.5**	$	1,085.4
Operating income (loss) before amortization, asset write-down and impairment[23]	**$**	**(42.5)**	$	41.4
Operating loss	**$**	**(127.5)**	$	(106.0)
Asset write-down and impairment	**$**	**-**	$	49.6
Inventory write-down (recovery)	**$**	**(2.4)**	$	(2.2)
Adjusted operating loss[24]	**$**	**(129.9)**	$	(58.6)
Capital expenditures	**$**	**60.5**	$	112.6
Average NBSK pulp price delivered to China - US$[25]	**$**	**747**	$	949
Average NBSK pulp price delivered to China - Cdn$[25]	**$**	**1,008**	$	1,236
Production – pulp (000 mt)		**603**		718
Production – paper (000 mt)		**130**		132
Shipments – pulp (000 mt)		**609**		750
Shipments – paper (000 mt)		**129**		129

[22] Includes 100% of CPPI, which is consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both NBSK pulp and BCTMP (2022 only).
[23] Amortization includes amortization of certain capitalized major maintenance costs.
[24] Adjusted operating loss is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[25] Per tonne, NBSK pulp list price delivered to China (Resource Information Systems, Inc.); Average NBSK pulp price delivered to China – Cdn$ calculated as average NBSK pulp price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.

Markets

The strong global pulp market fundamentals experienced in the latter part of 2022 continued into the early part of 2023, as a positive pricing environment was primarily driven by global transportation challenges and unplanned global production outages. Pricing came under pressure during the middle of the year, however, as a moderation in purchasing activity from China, the world's largest consumer of pulp, was combined with a notable uplift in global pulp producer inventory levels. Towards the end of the year, as global producer inventories returned to more normalized levels and demand from China improved, global pulp pricing experienced some positive momentum.

As a result of the aforementioned factors, US-dollar NBSK pulp list prices to China began the 2023 year at US$895 per tonne, peaked in February at US$913 per tonne and declined sharply to a low of US$648 per tonne in June. As global pulp market fundamentals, and therefore pricing, improved in the latter part of the year, China pulp prices ended the year at US$730 per tonne. For 2023 overall, US-dollar NBSK pulp list prices to China averaged US$747 per tonne, down US$202 per tonne, or 21%, from the average price in 2022. North American pulp prices experienced similar trends to Asia, with list prices to that region starting the year at US$1,700 per tonne in January, declining to US$1,270 per tonne in August, before recovering to US$1,350 per tonne in December (before taking account of customer discounts, which were broadly unchanged year-over-year).

Global softwood pulp producer inventories began 2023 at 48 days of supply[26] and continued to climb through the first part of the year, reaching 54 days of supply[26] in May. As the year progressed, these elevated producer inventory levels continued until a modest uptick in purchasing activity from China was experienced late in the third quarter and through the fourth quarter of 2023. Consequently, global softwood pulp inventories trended down to within the balanced range through the latter part of 2023, ending the year at 40 days of supply[26]. Market conditions are generally considered balanced when inventories are in the 32-43 days of supply range[26].

The following charts show the China NBSK pulp list price movements in 2023, before taking account of customer discounts and rebates (Chart 5) and global pulp shipments by destination (Chart 6).

Chart 5

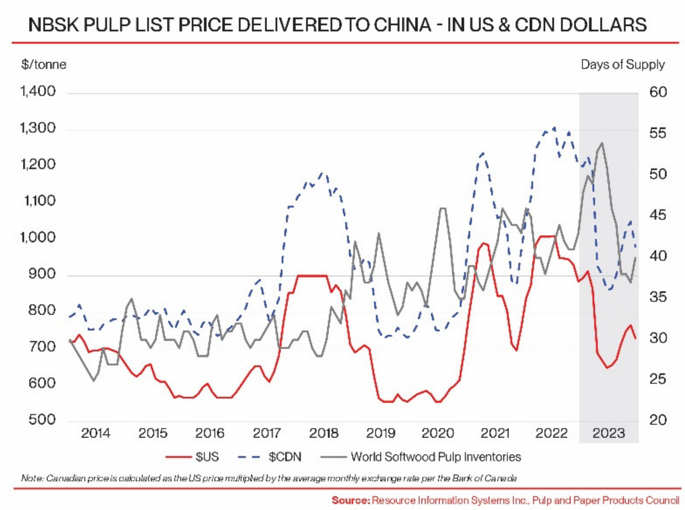
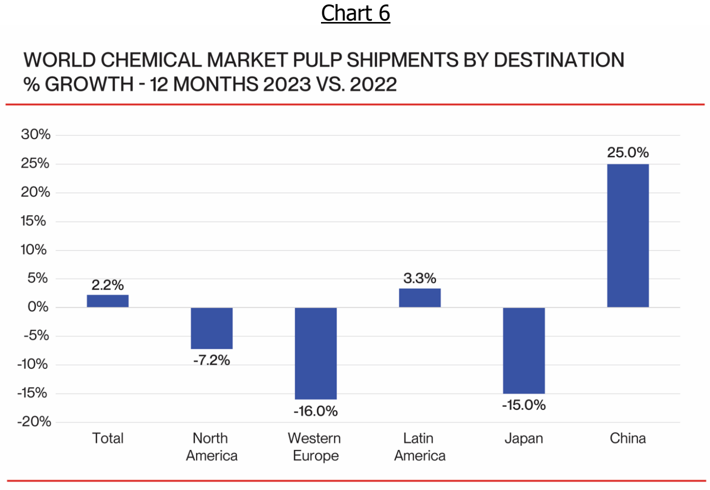


Chart 6



Global bleached kraft paper markets remained solid through the first half of 2023, as steady demand and balanced inventories in the North American market was offset by slight declines in offshore markets. Inflationary pressures and rising global paper inventories, however, led to a softening of global paper markets through most of the second half of 2023, before a slight uptick in North American demand was experienced in December.

[26] World 20 data is based on twenty producing countries representing 80% of the world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council ("PPPC"). The upper and lower limits of the of the balanced range are the average level plus or minus one standard deviation, based on the last 60 data points (i.e. last five years).

Sales

Pulp shipments in 2023 were 609,000 tonnes, down 141,000 tonnes, or 19%, from 2022, principally driven by a 16% reduction in pulp production year-over-year.

As mentioned, for the 2023 year as a whole, NBSK pulp list prices to China averaged US$747 per tonne, down $202 per tonne, or 21%, compared to the average in 2022. North American NBSK pulp list prices averaged US$1,448 per tonne for the current year, down US$256 per tonne, or 15%, year-over-year (before discounts, which were largely unchanged). As a direct result, CPPI's average NBSK pulp unit sales realizations were significantly lower in 2023, offset to a degree, by the 4% weaker Canadian dollar.

Energy revenues in 2023 were up compared to the prior year primarily driven by an improvement in Northwood's pulp productivity year-over-year and the associated increase in its turbine operating days.

Paper shipments were consistent year-over-year, at 129,000 tonnes. Despite some softening in demand in the North American market during the current year, paper unit sales realizations for 2023 were slightly higher than the prior year, largely reflecting the weaker Canadian dollar.

Operations

Pulp production was 603,000 tonnes in 2023, down 115,000 tonnes, or 16%, from the prior year, largely reflecting operational footprint changes as a result of ongoing fibre shortages, offset in part by improved NBSK productivity and reduced downtime in the current year.

For 2023 overall, despite the uplift in productivity at both Northwood and Intercon year-over-year, pulp production in the current year continued to be impacted by efficiency and reliability challenges. Sustained fibre shortages weighed heavily on pulp production, as CPPI's Intercon pulp mill started the year curtailed, and in April, CPPI wound down and permanently closed the pulp line at its PG Pulp and Paper mill. Mid-year, NBSK pulp production was impacted by a labour dispute at the Ports of Vancouver and Prince Rupert. Finally, while Northwood's scheduled maintenance was successfully completed in September, its restart was delayed into the fourth quarter by numerous operational challenges unrelated to the scheduled maintenance downtime. Combined, these factors reduced NBSK pulp production by approximately 420,000 tonnes in 2023, of which the operating structure change associated with the PG pulp line represented approximately 210,000 tonnes in the current year.

In 2022, pulp production was most notably impacted by transportation shortages early in the year, an indefinite curtailment at CPPI's Taylor BCTMP mill, as well as temporary fibre-driven production curtailments at the Intercon pulp mill. When combined with Northwood's recovery boiler number one ("RB1") capital upgrade and scheduled maintenance outages at both Northwood and Intercon, NBSK pulp production was reduced by approximately 300,000 tonnes and BCTMP production by approximately 210,000 tonnes in the prior year.

Pulp unit manufacturing costs were moderately lower compared to the prior year, principally tied to a decrease in pulp unit conversion costs associated with reduced energy and maintenance costs, offset, to a degree, by the decline in production year-over-year and slightly higher fibre costs.

Paper production in 2023 was broadly in line with prior year, at 130,000 tonnes. Paper unit manufacturing costs in 2023 were slightly higher, as a significant decrease in slush pulp costs (linked to lower Canadian dollar NBSK pulp market prices), were more than offset by higher energy costs in the current year following the closure of CPPI's PG pulp mill in April 2023, as well as an increase in maintenance spend (timing-related).

Asset Write-Down and Impairment

An impairment expense of $49.6 million was recorded in 2022 on the property, plant, and equipment for the pulp and paper segment, driven by the announced permanent closure of CPPI's pulp line at PG combined with ongoing pressure on fibre costs and continued uncertainty surrounding fibre availability for CPPI's pulp mills. CPPI did not recognize any additional asset write-down or impairment charge in the current year. See "Critical Accounting Estimates – Asset Write-Downs and Impairments" for further details.

Unallocated and Other Items

(millions of Canadian dollars)		2023		2022
Corporate costs	**$**	**(55.4)**	$	(57.1)
Finance income, net	**$**	**10.4**	$	1.0
Foreign exchange gain on term debt and duty deposits recoverable, net	**$**	**4.5**	$	2.4
Gain on derivative financial instruments	**$**	**6.8**	$	3.9
Other income, net	**$**	**19.9**	$	27.1

Corporate Costs

Corporate costs were $55.4 million in 2023, down $1.7 million from 2022, as a donation to the Company's Good Things Come From Trees Foundation (the "Foundation") in the comparative year, was offset in part by increased legal costs associated with the softwood lumber dispute, and to a lesser extent, higher head office and general administrative expenses in the current year.

Finance Income, Net

Net finance income for 2023 of $10.4 million, compared to net finance income of $1.0 million in 2022, largely reflecting higher interest income associated with the Company's US-dollar and SEK cash and short-term investments, and, to a lesser extent, an increase in accrued interest income on recoverable duty deposits following the finalization of countervailing ("CVD") and anti-dumping duties ("ADD") rates for the fourth period of review ("POR4"). These factors were offset in part by an uplift in interest expense associated with letters of credit as well as the Company's operating loan and term debt facilities (see the "Liquidity and Financial Requirements" and "Softwood Lumber Agreement" sections for further discussion).

Foreign Exchange Gain on Translation of Term Debt and Duty Deposits Recoverable, Net

In 2023, the Company recognized a foreign exchange gain of $6.9 million on its US-dollar term debt held by Canadian entities, offset by a $2.4 million loss on US-denominated duty deposits receivable, both due to the strengthening of the Canadian dollar at the close of 2023 relative to the exchange rate at the close of 2022 (see further discussion on term debt in the "Liquidity and Financial Requirements" section).

Gain on Derivative Financial Instruments

At times, the Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in lumber prices, energy costs, interest, and foreign exchange rates. In 2023, the Company recorded a net gain of $6.8 million (2022 – net gain of $3.9 million) in relation to its derivative financial instruments, mostly due to realized and unrealized mark-to-market gains on foreign exchange forward contracts, offset in part by realized and unrealized mark-to-market losses on lumber futures contracts (see further discussion in the "Liquidity and Financial Requirements" section).

The following table summarizes the gains (losses) recognized in the consolidated statement of income (loss) for each of the various components during the comparable periods:

(millions of Canadian dollars)		2023		2022
Lumber futures	**$**	**(0.4)**	$	2.0
Foreign exchange forward contracts	**$**	**7.2**	$	1.9
Gain on derivative financial instruments	**$**	**6.8**	$	3.9

During 2023, a loss of $12.1 million (2022 – $26.8 million) was recognized in 'Other equity' on the Company's consolidated balance sheet following remeasurement of the put liability.

Additional information on financial instruments in place at year end can be found in the "Liquidity and Financial Requirements" section, later in this document.

Other Income, Net

Other income, net of $19.9 million in 2023, largely reflected the receipt of insurance proceeds related to operational downtime experienced at CPPI's Northwood pulp mill in recent years, combined with mark-to-market gains on investments in certain highly liquid funds, and favourable foreign exchange movements on US-dollar denominated working capital balances held by the Canadian operations. Other income, net of $27.1 million for 2022 primarily related to favourable foreign exchange movements on US-dollar denominated working capital and receivables held by the Canadian operations.

Subsequent to year-end, on March 1, 2024, CPPI received insurance proceeds totalling $15.0 million related to operational downtime experienced at Northwood in recent years that will be recognized in 'Other income, net', during the first quarter of 2024.

Income Tax Recovery (Expense)

The Company recorded an income tax recovery of $141.5 million in 2023, compared to an expense of $247.4 million in 2022, with an overall effective tax rate of approximately 29% (2022 - 22%).

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

(millions of Canadian dollars)	2023	2022
Net income (loss) before income taxes	**$ (490.0)**	$ 1,108.5
Income tax recovery (expense) at statutory rate of 27% (2022 – 27%)	**$ 132.3**	$ (299.3)
Add (deduct):		
Non-taxable income (loss) related to non-controlling interests	**$ (1.1)**	$ 0.3
Entities with different income tax rates and other tax adjustments	**$ 9.7**	$ 53.5
Permanent difference from capital gains and losses and other non-deductible items	**$ 0.6**	$ (1.9)
Income tax recovery (expense)	**$ 141.5**	$ (247.4)

The income tax recovery arising from entities with different income tax rates and other tax adjustments is largely comprised of the Company's US and European lumber operations which have lower statutory income tax rates.

In addition to the amounts recorded in net income (loss), a tax expense of $6.0 million was recorded to other comprehensive income (loss) in relation to actuarial gains, net, on the defined benefit plans in 2023 (2022 – $9.9 million).

Other Comprehensive Income (Loss)

(millions of Canadian dollars)	2023	2022
Defined benefit plan actuarial gains, net of tax	**$ 16.4**	$ 26.9
Foreign exchange translation of foreign operations, net of tax	**$ (37.1)**	$ 36.7
Other comprehensive income (loss), net of tax	**$ (20.7)**	$ 63.6

Canfor measures its accrued retirement benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Any actuarial gains or losses which arise are recognized immediately by means of a credit or charge through other comprehensive income (loss).

For 2023, a gain of $22.4 million (before-tax) was recorded to other comprehensive income (loss) related to changes in the valuation of the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), as a 0.2% decrease in the discount rate used to value the defined benefit plans was more than offset by a higher than anticipated return on plan assets and, to a lesser extent, favourable movements in reserves.

For 2022, a gain of $36.8 million (before-tax) was recorded to other comprehensive income (loss) related to changes in the valuation of the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), largely reflecting a 1.8% increase in the discount rate used to value the defined benefit plans, offset in part by a lower than anticipated return on plan assets, and to a lesser extent, an actuarial loss of $15.0 million recognized in connection with the wind-up of one of the Company's registered defined benefit plans and the derecognition of the related plan surplus.

For more information, see "Critical Accounting Estimates – Employee Future Benefits" later in this document.

The Company recorded an after-tax loss of $37.1 million in other comprehensive income (loss) in 2023 related to foreign exchange differences for foreign operations, largely reflecting a stronger Canadian dollar through the majority of 2023 relative to the US-dollar, offset in part by a weaker Canadian dollar relative to the SEK, compared to one year earlier. This compared to an after-tax gain of $36.7 million in 2022 resulting from a weaker Canadian dollar through the majority of 2022 relative to the US-dollar, offset in part by a stronger Canadian dollar relative to the SEK.

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's financial position as at December 31, 2023 and 2022:

(millions of Canadian dollars, except for ratios)		**2023**		**2022**
Cash and cash equivalents	**$**	**627.4**	$	1,268.7
Operating working capital (includes drawings on operating loans)	**$**	**725.1**	$	912.6
Net working capital	**$**	**1,352.5**	$	2,181.3
Property, plant and equipment	**$**	**2,429.8**	$	2,219.1
Right-of-use assets	**$**	**123.1**	$	99.1
Timber licenses	**$**	**346.8**	$	357.8
Goodwill and other intangible assets	**$**	**519.3**	$	532.1
Long-term investments and other (excluding deferred tax asset)	**$**	**445.3**	$	465.2
Net working capital and long-term assets	**$**	**5,216.8**	$	5,854.6
Term debt (long-term portion)	**$**	**115.1**	$	213.6
Retirement benefit obligations	**$**	**132.9**	$	158.3
Lease obligations	**$**	**98.2**	$	79.5
Deferred reforestation obligations (long-term portion)	**$**	**47.4**	$	43.8
Other long-term liabilities	**$**	**37.5**	$	32.0
Put liability	**$**	**187.7**	$	172.7
Deferred income taxes, net	**$**	**320.6**	$	391.9
Non-controlling interests	**$**	**459.2**	$	541.3
Equity attributable to shareholders of Company	**$**	**3,818.2**	$	4,221.5
	$	**5,216.8**	$	5,854.6
Ratio of current assets to current liabilities		**2.5 : 1**		3.5 : 1
Net cash to total capitalization[27]		**(9.1)%**		(26.0)%
Cumulative duty deposits paid	**$**	**931.0**	$	887.9

[27] Net cash to total capitalization is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

The ratio of current assets to current liabilities at the end of 2023 was 2.5:1 compared to 3.5:1 at the end of 2022, largely reflecting significantly lower operating results giving rise to a decline in the Company's cash balances and an increase in operating loans, partially offset by a reduction in income taxes payable at the end of the current year.

The Company's net cash to capitalization was 9.1% at December 31, 2023 (December 31, 2022 – 26.0%), principally tied to a notable decline in operating results in the current year, offset to a degree by lower capital spending.

In 2023, the Company continued to pay cash deposits on Canadian lumber exports destined to the US as a result of the imposition of duties by the US Department of Commerce ("DOC") in the latter half 2017. As of December 31, 2023, the Company had paid cumulative duty deposits of $931.0 million (December 31, 2022 – $887.9 million) and had accrued interest on duty deposits recoverable of $60.8 million (December 31, 2022 – $40.8 million). Further discussion is provided in the "Softwood Lumber Agreement" section of this document.

CHANGES IN FINANCIAL POSITION

At the end of 2023, Canfor had $627.4 million of cash and cash equivalents.

(millions of Canadian dollars)	2023	2022
Decrease in cash and cash equivalents[28]	**$ (634.6)**	$ (113.0)
Operating activities	**$ 154.7**	$ 1,113.0
Financing activities	**$ (185.6)**	$ (179.4)
Investing activities	**$ (603.7)**	$ (1,046.6)

[28] Decrease in cash and cash equivalents shown before foreign exchange translation on cash and cash equivalents.

The changes in the components of cash flows during 2023 are discussed in the following sections.

Operating Activities

For the 2023 year, Canfor generated cash from operations of $154.7 million, down $958.3 million from the cash generated of $1,113.0 million in the previous year. The decrease in operating cash flows was largely tied to reduced cash earnings in 2023, offset in part by lower income tax payments in the current year and favourable movements in non-cash working capital. The latter primarily reflected a decrease lumber and log inventories at the end of the current year, for the most part tied to capacity reductions and fibre-related curtailments in Western Canada. Cash duty deposits paid in 2023 were $43.1 million compared to $205.4 million in the prior year.

Financing Activities

Financing activities in 2023 used cash of $185.6 million compared to $179.4 million in 2022. Financing activities in 2023 principally related to distributions to non-controlling interests, share purchases, and to a lesser extent, lease and interest payments. Finance activities in the current year also included the conversion of CPPI's $50.0 million term debt into its existing operating loan facility, as well as a further $46.1 million in term debt repayments, offset in part by a net $33.2 million draw down on the Company's operating loan facilities. Financing activities in 2022 were largely comprised of share purchases and distributions to non-controlling interests.

Investing Activities

In 2023, the Company used net cash for investing activities of $603.7 million, compared to $1,046.6 million in 2022. The significant decrease year-over-year was principally associated with the Company's acquisition of Millar Western Forest Product Ltd. ("Millar Western") in March 2022. Additions to property, plant and equipment (before acquisitions) totaled $587.0 million in 2023, down $38.3 million from 2022. In the lumber segment, capital expenditures of $510.4 million, included spend on construction costs associated with the Company's greenfield sawmills in DeRidder, Louisiana, and Axis, Alabama, as well as ongoing spend related to the upgrade and expansion of the Company's Urbana sawmill in Arkansas, acquisition of Ingarp Träskydd in Sweden, smaller-scale discretionary capital projects in Western Canada and the US South, as well as maintenance-of-business capital expenditures. In the pulp and paper segment, capital spending of $60.5 million in 2023 was largely associated with maintenance-of-business capital spend, including Northwood's scheduled maintenance outage and inspection of RB1.

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loans

Operating Loans - Consolidated

At December 31, 2023, on a consolidated basis, including CPPI and Vida, the Company had $110.6 million drawn on its operating loans and facilities, and an additional $63.5 million reserved for several standby letters of credit. At the end of the year, the Company had available, undrawn operating loan facilities of $1,140.5 million, including an undrawn committed revolving credit facility.

Operating Loans – Canfor, excluding Vida and CPPI

At December 31, 2023, Canfor, excluding Vida and CPPI, had available operating loan facilities totaling $1,043.4 million, with $56.6 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans, leaving $986.8 million available and undrawn on its operating and revolving loan facilities at the end of the year.

Interest is payable on Canfor's committed operating and revolving loan facilities, excluding Vida and CPPI, at floating rates based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar floating rate, plus a margin that varies with the Company's debt to total capitalization ratios. Canfor's committed operating loan facility is repayable on October 31, 2027. On June 28, 2024, any amounts drawn on the committed revolving credit facility will be converted to US-dollar denominated floating rate term debt, with a maturity date of June 28, 2029.

Operating Loans – Vida

At December 31, 2023, Vida had $3.6 million drawn on its $111.2 million operating loan facilities, leaving $107.6 million available and undrawn at the end of the year.

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

Operating Loans – CPPI

At December 31, 2023, CPPI had $107.0 million drawn on its $160.0 million operating loan facility, with $6.9 million reserved for several standby letters of credit under the operating loan facility, leaving $46.1 million available and undrawn at the end of the year.

The terms of CPPI's operating loan facility include interest payable at floating rates based on lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar floating rate, plus a margin that varies with CPPI's debt to capitalization ratio. CPPI's operating loan facility is repayable on May 2, 2027.

Term Debt

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

CPPI's $80.0 million non-revolving term debt, which is restricted for use on the continued re-investment in CPPI's facilities, specifically Northwood's RB1, has a maturity date of May 2, 2027, with interest payable at floating interest rates consistent with its operating loan facility. As at December 31, 2023, this non-revolving term debt remains undrawn.

Net Cash and Liquidity

As at December 31, 2023, on a consolidated basis, including CPPI and Vida, the Company had total net cash of $356.9 million, a $625.1 million decline from net cash of $982.0 million at the end of the previous year. Available liquidity of $1,847.9 million (of which $80.0 million relates to CPPI's non-revolving term debt which is restricted for use on the continued re-investment in its facilities, specifically Northwood's RB1), decreased by $579.5 million from the previous year.

Debt Covenants

As mentioned, Canfor, excluding Vida, has certain financial covenants on its debt obligations that stipulate maximum debt to total capitalization ratios. The debt to total capitalization is calculated by dividing total debt by shareholders' equity plus total debt. Debt obligations are held by various entities within the Canfor group and the individual debt agreements specify the entities within the group that are to be included in the covenant calculations.

In circumstances when debt to total capitalization exceeds a certain threshold, Canfor is subject to an interest coverage ratio that requires a minimum amount of earnings before interest, taxes, depreciation and amortization relative to net interest expense. Canfor is not currently subject to this test.

Provisions contained in Canfor's long-term borrowing agreements also limit the amount of indebtedness that the Company may incur and the amount of dividends it may pay on its common shares. The amount of dividends the Company is permitted to pay under its long-term borrowing agreements is determined by reference to consolidated net earnings less certain restricted payments.

Vida is also subject to certain financial covenants, including minimum equity and interest coverage ratios.

Management reviews results and forecasts in monitoring the Company's compliance with these covenant requirements. Canfor, Vida and CPPI were fully in compliance with all debt covenants for the year ended December 31, 2023 and expects to remain so for the foreseeable future.

Substantially all borrowings of Vida and CPPI are non-recourse to other entities within the Company.

Normal Course Issuer Bid

On March 17, 2023, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,052,978 common shares, or approximately 5% of its issued and outstanding common shares as of March 14, 2023. The renewed normal course issuer bid is set to expire on March 20, 2024.

In 2023, 2,127,800 common shares were purchased under this normal course issuer bid for $41.8 million (an average price of $19.64 per common share), with an additional $2.5 million paid in relation to shares purchased the prior year.

Shares Outstanding

As at December 31, 2023 and March 5, 2024 there were 118,931,779 common shares of the Company outstanding, and Canfor's ownership interest in CPPI and Vida was 54.8% and 70.0%, respectively (December 31, 2022 – 54.8% and 70.0%).

2024 Projected Capital Spending and Debt Repayments

Based on its current outlook, assuming no significant change in market conditions during the year, the Company anticipates it will invest approximately $440 million in 2024, which will include approximately $400 million in the lumber segment and approximately $40 million in the pulp and paper segment (including costs related to scheduled maintenance outages).

For the lumber business, projected spending is anticipated to be focused the construction of a new state-of-the-art sawmill in southern Alabama ("Axis"), which will replace the Company's existing Mobile sawmill, as well as the upgrade and expansion of the Urbana sawmill in Union County, Arkansas. In addition to these projects, spending in 2024 is also anticipated to reflect capital investments aimed at increasing drying and sorting capacity at the Company's European Bruza sawmill, as well as various high-returning discretionary projects, primarily concentrated in the US South and Europe.

For CPPI, it is anticipated that capital projects in 2024 will be primarily focused on optimizing the sustainable operating footprint and improving the reliability of its operations.

Details of the Company's additional commitments and term debt obligations in 2024 are outlined in the "Other Commitments" section of this document. Canfor (including CPPI and Vida) has sufficient liquidity in its cash reserves and operating loans to finance its planned investments and support its lumber and pulp operations during 2024.

Derivative Financial Instruments

As at December 31, 2023, the Company had the following significant derivative financial instruments outstanding:

	As at December 31, 2023	
Maturity Date	**Notional Amount**	**Average Rate**
Lumber Futures Contracts	(MMfbm)	(US-dollars per Mfbm)
Future sales contracts		
0-6 months	**19.3**	**$565.2**

At a consolidated level, Canfor is exposed to foreign exchange risk related to the US-dollar, as Canfor's products are sold principally in US-dollars. In addition, Canfor holds US-dollar denominated financial assets and liabilities. Although the Company's Vida subsidiary primarily transacts in its functional currency of SEK, some of its products are sold in US-dollars, British Pounds ("GBP"), Australian dollars ("AUD"), Euros ("EUR") and Norwegian krone ("NOK"). The Company, including Vida, holds US-dollar, SEK and AUD operating loan and term debt facilities and limits its exposure to foreign exchange risk using forward foreign exchange contracts and foreign exchange options.

		As at December 31, 2023	
Maturity Date	**Notional Amount Currency**	**Notional Amount**	**Exchange Rates**
Forward Foreign Exchange Contracts		(millions)	(rate of SEK to notional currency)
0-6 months	GBP	**£40.0**	**13.35**
0-18 months	USD	**$99.0**	**10.31**
0-6 months	EUR	**€15.0**	**11.62**

Other Commitments

The following table summarizes Canfor's term debt obligations excluding interest at December 31, 2023 for each of the next five years and thereafter:

(millions of Canadian dollars)	2024	2025	2026	2027	2028	Thereafter	Total
Term debt obligations	$ 44.8	$ 44.2	$ 0.1	$ 0.1	$ 0.1	$ 70.6	$ 159.9

Interest payments include interest of 4.4% on the Company's US$66.7 million fixed-rate term loan. Interest is also payable on floating rate debt. Interest payments have been excluded from the above commitments.

Other contractual obligations not included in the table above or highlighted previously are:

- Contractual commitments totaling $363.0 million reflecting commitments for the construction of capital assets (including commitments related to the construction of the new Axis sawmill in southern Alabama), and other working capital items. The majority of these commitments are expected to be settled within two years. Commitments related to leases of property, plant and equipment are detailed in Note 6 of Canfor's 2023 consolidated financial statements.

  The Company's total commitments of $363.0 million include contractual commitments with landowners to purchase a fixed volume of logs at a future date for a negotiated, agreed upon price. For certain contracts, the Company pre-pays a portion of the fee to the vendor, recognized in 'Prepaid expenses and other' on the Company's consolidated balance sheet. At December 31, 2023, the Company determined that certain prepaid log purchase contracts had become onerous as defined under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as the cost of the logs, combined with the incremental cost to convert the logs to finished lumber, were anticipated to exceed the future sales price. Therefore, an onerous contract provision of $6.5 million was recognized in 'Accounts payable and accrued liabilities' as at December 31, 2023.

- Deferred reforestation, for which a liability of $100.0 million has been recorded at December 31, 2023. The reforestation liability is a fluctuating obligation, based on the area harvested. The future cash outflows are a function of the actual costs of silviculture programs and of harvesting and are based on, among other things, the location of the harvesting and the activities necessary to adequately stock harvested areas and achieve a "free-to-grow" state.

- Obligations to pay pension and other post-employment benefits, for which the net liability for accounting purposes at December 31, 2023 was $122.1 million. As at December 31, 2023, Canfor estimates that total contribution payments of $8.3 million will be made to its defined benefit pension plans in 2024.

- CPPI has energy purchase agreements with a BC energy company (the "Energy Agreements") for all three kraft pulp mills. Two of these agreements are for the sale of incremental electrical energy and the third agreement is for load displacement. All agreements include performance guarantees to ensure minimum contractual amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, CPPI has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2023, CPPI had posted $2.2 million of standby letters of credit under these agreements and had no repayment obligations under the terms of any of these agreements.

- Purchase and contractual obligations in the normal course of business. Purchase obligations of a more substantial dollar amount generally relate to the supply of fibre for the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on Canfor's requirements in any given year.

TRANSACTIONS WITH RELATED PARTIES

The Company undertakes transactions with various related entities. These transactions are in the normal course of business, except where otherwise noted.

The Jim Pattison Group is Canfor's largest shareholder with an ownership interest of 53.6% at December 31, 2023. During 2023, subsidiaries owned by The Jim Pattison Group provided lease, insurance, and other services to Canfor totaling $6.6 million.

During 2023, CPPI sold paper to subsidiaries owned by the Jim Pattison Group totaling $4.5 million. CPPI also made purchases from subsidiaries owned by the Jim Pattison group totaling $0.7 million. Additional details on related party transactions are contained in Note 22 to Canfor's 2023 consolidated financial statements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") STRATEGY, REPORTING AND RELATED RISKS

One of Canfor's primary objectives is to be the leading global supplier of sustainable wood products. As a Company that uses a renewable resource to produce sustainable products, it is part of the climate change solution and the circular economy. Canfor's vision of creating a future as sustainable as the forests is grounded in a deep respect for the people the business touches, the products it creates and the planet it relies on to thrive.

In 2021, as part of this leading role, the Company launched its updated sustainability strategy and Sustainability Report. The Company's Sustainability Report includes sustainability goals and targets and demonstrates progress made to date. In 2022, the Company announced its climate ambition to be a net-zero company by 2050 through advancing climate-positive forest management, producing sustainable forest products and developing impactful partnerships. In the 2023 Sustainability Report, the Company will share its continued advancement of its sustainability strategy. Canfor will further evolve its ESG reporting by providing increasing transparency and disclosure, including defining additional goals and targets for its ESG material topics.

The Company is actively monitoring the changing landscape of ESG reporting regulations and has aligned disclosures with the Global Reporting Initiative ("GRI"), the recommendations from the Task Force on Climate-Related Financial Disclosures ("TCFD") and with the standards of the Sustainability Accounting Standards Board ("SASB"). In addition to regulatory Greenhouse Gas ("GHG") reporting for applicable facilities, on a voluntary basis, the Company calculates its manufacturing and corporate Scope 1 and Scope 2 GHG emissions annually for all of its facilities under operational control in Canada, the US and Sweden in accordance with Greenhouse Gas Protocol developed by the World Business Council for Sustainable Development and World Resource Institute. The Company has also calculated Scope 3 GHG emissions for its 2022 baseline year. Canfor is committed to the Science Based Targets initiative ("SBTi") and plans to undergo the SBTi validation process by April 2024. The SBTi publishes a corporate standard for net-zero target setting, providing companies with a clearly defined path for reducing emissions in line with the Paris Agreement and limiting global warming to 1.5° Celsius above preindustrial levels. Canfor has committed to set near- and long-term company-wide emissions reductions in line with science-based net-zero with the SBTi.

More detailed information on the Company's sustainability strategy and performance is provided in the annual Sustainability Report (to be issued in the second quarter of 2024) and at https://sustainability.canfor.com.

Furthermore, the Company is subject to risks related to ESG topics, including climate change and environmental issues. Climate change risks include physical risks resulting from adverse events brought on by both natural and human-made disasters, including, but not limited to, severe weather conditions, forest fires, hurricanes, and timber diseases and infestations. The Company is also subject to transition risks associated with climate change including changes in laws, regulations, and industry standards. There also may be reputation risks due to rising prominence of ESG concerns among the Company's stakeholders and Indigenous partners. These concerns could influence public opinions about the Company and the broader industry and could adversely affect its reputation, business, strategy, and operations. The Company is also subject to a wide range of general and industry-specific regulations related to protection of the environment.

The Company has published several sustainability-related goals and targets as part of its sustainability strategy. There is a risk that these goals and targets may not be met or not be achieved within expected time periods, that some or all of the expected opportunities may fail to materialize, result in increased capital expenditures or other costs to our operations. This may be due to events and circumstances, such as, but not limited to: general global economic, market and business conditions; pricing, supply, demand for our products; governmental and regulatory requirements and actions; ability to access capital; commercial viability and scalability of emission reduction strategies and technology; impacts from natural disturbances and extreme weather conditions.

The risks and uncertainties the Company faces associated with climate change and the environment are discussed further under "Climate Change," "Environmental Issues" and "Species at Risk" in the "Risks and Uncertainties" section of this document.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 1,282.9**	**$ 1,312.3**	**$ 1,446.0**	**$ 1,385.4**	$ 1,373.3	$ 1,666.4	$ 2,173.1	$ 2,213.9
Operating income (loss) before amortization, asset write-downs and impairments[29]	**$ (89.1)**	**$ 42.6**	**$ 41.0**	**$ (105.7)**	$ (62.6)	$ 211.5	$ 630.3	$ 830.7
Operating income (loss)	**$ (191.3)**	**$ (65.1)**	**$ (66.7)**	**$ (208.5)**	$ (308.0)	$ 108.6	$ 531.6	$ 741.9
Net income (loss)	**$ (121.6)**	**$ (34.7)**	**$ (48.6)**	**$ (143.6)**	$ (231.4)	$ 106.5	$ 415.5	$ 570.5
Shareholder net income (loss)	**$ (117.1)**	**$ (23.1)**	**$ (43.9)**	**$ (142.0)**	$ (207.9)	$ 87.4	$ 373.8	$ 534.0
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ (0.98)**	**$ (0.19)**	**$ (0.36)**	**$ (1.17)**	$ (1.70)	$ 0.71	$ 3.02	$ 4.29
Book value[30]	**$ 32.10**	**$ 32.89**	**$ 32.63**	**$ 33.81**	$ 34.87	$ 36.14	$ 34.77	$ 31.96
Statistics								
Lumber shipments (MMfbm)[31]	**1,333**	**1,288**	**1,406**	**1,340**	1,239	1,311	1,528	1,407
Pulp shipments (000 mt)	**136**	**142**	**179**	**152**	170	199	205	176
Average exchange rate – US$/Cdn$	**$ 0.734**	**$ 0.746**	**$ 0.745**	**$ 0.740**	$ 0.736	$ 0.766	$ 0.783	$ 0.790
Average exchange rate – SEK/Cdn$	**7.819**	**8.056**	**7.833**	**7.726**	7.891	8.082	7.708	7.367
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 400**	**$ 419**	**$ 358**	**$ 386**	$ 410	$ 580	$ 866	$ 1,274
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 448**	**$ 452**	**$ 486**	**$ 485**	$ 451	$ 722	$ 769	$ 1,372
Average SYP (East) 2x6 #2 lumber price (US$)	**$ 333**	**$ 404**	**$ 385**	**$ 420**	$ 449	$ 459	$ 556	$ 1,102
Average NBSK pulp list price delivered to China (US$)	**$ 748**	**$ 680**	**$ 668**	**$ 891**	$ 920	$ 969	$ 1,008	$ 899

[29] Amortization includes amortization of certain capitalized major maintenance costs; includes asset write-down and impairment charges of $138.6 million in 2022.

[30] Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

[31] Includes Canfor produced lumber, as well as lumber purchased for resale, remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

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

(millions of Canadian dollars)	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Operating income (loss) by segment:								
Lumber	**$ (162.2)**	**$ (1.3)**	**$ (15.5)**	**$ (169.7)**	$ (199.5)	$ 101.6	$ 552.1	$ 783.0
Pulp and Paper	**$ (15.1)**	**$ (49.3)**	**$ (37.9)**	**$ (25.2)**	$ (91.1)	$ 19.2	$ (8.1)	$ (26.0)
Unallocated and Other	**$ (14.0)**	**$ (14.5)**	**$ (13.3)**	**$ (13.6)**	$ (17.4)	$ (12.2)	$ (12.4)	$ (15.1)
Total operating income (loss)	**$ (191.3)**	**$ (65.1)**	**$ (66.7)**	**$ (208.5)**	$ (308.0)	$ 108.6	$ 531.6	$ 741.9
Add: Amortization[32]	**$ 102.2**	**$ 107.7**	**$ 107.7**	**$ 102.8**	$ 106.8	$ 102.9	$ 98.7	$ 88.8
Add: Asset write-downs and impairments	**$ -**	**$ -**	**$ -**	**$ -**	$ 138.6	$ -	$ -	$ -
Total operating income (loss) before amortization, asset write-downs and impairments	**$ (89.1)**	**$ 42.6**	**$ 41.0**	**$ (105.7)**	$ (62.6)	$ 211.5	$ 630.3	$ 830.7
Add (deduct):								
Working capital movements	**$ (18.0)**	**$ 151.8**	**$ 151.7**	**$ (122.7)**	$ (18.6)	$ 184.2	$ 208.8	$ (287.7)
Defined benefit plan contributions, net	**$ (2.5)**	**$ (2.9)**	**$ (15.4)**	**$ (3.4)**	$ (2.4)	$ (3.0)	$ (3.0)	$ (3.8)
Income taxes (paid) received, net	**$ (0.5)**	**$ 41.8**	**$ (17.9)**	**$ (57.2)**	$ (42.7)	$ (98.9)	$ (113.0)	$ (208.0)
Adjustment to accrued duties[33]	**$ 81.5**	**$ (22.8)**	**$ 22.6**	**$ 19.4**	$ 45.3	$ (105.6)	$ (45.3)	$ (50.7)
Other operating cash flows, net[34]	**$ 20.2**	**$ (4.9)**	**$ 1.8**	**$ 43.3**	$ 28.2	$ (3.8)	$ (0.4)	$ 23.5
Cash from (used in) operating activities	**$ (8.4)**	**$ 205.6**	**$ 183.8**	**$ (226.3)**	$ (52.8)	$ 184.4	$ 677.4	$ 304.0
Add (deduct):								
Capital additions, net	**$ (172.1)**	**$ (192.9)**	**$ (142.4)**	**$ (79.6)**	$ (277.8)	$ (138.8)	$ (113.1)	$ (95.6)
Finance expenses paid	**$ (10.5)**	**$ (6.7)**	**$ (10.8)**	**$ (5.6)**	$ (6.9)	$ (4.4)	$ (6.4)	$ (3.4)
Proceeds from (repayments of) term debt	**$ (46.0)**	**$ (0.1)**	**$ (50.1)**	**$ 0.1**	$ (0.1)	$ (0.1)	$ (0.1)	$ (0.1)
Share purchases	**$ (9.5)**	**$ (12.2)**	**$ (11.5)**	**$ (11.1)**	$ (30.3)	$ (2.4)	$ (40.5)	$ (5.7)
Purchase of long-term investments	**$ (11.4)**	**$ (48.0)**	**$ -**	**$ -**	$ -	$ -	$ -	$ -
Distributions to non-controlling interests	**$ -**	**$ (0.4)**	**$ (61.9)**	**$ -**	$ -	$ (1.7)	$ (60.9)	$ (0.2)
Acquisition of Millar Western	**$ -**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ (15.9)	$ (418.1)
Foreign exchange gain (loss) on cash and cash equivalents	**$ 19.4**	**$ 12.4**	**$ (40.3)**	**$ 1.8**	$ 25.7	$ 34.0	$ (8.2)	$ (24.6)
Other, net[34]	**$ 1.5**	**$ (0.1)**	**$ 1.5**	**$ 7.8**	$ 13.7	$ (18.5)	$ (1.2)	$ (6.6)
Change in cash / operating loans	**$ (237.0)**	**$ (42.4)**	**$ (131.7)**	**$ (312.9)**	$ (328.5)	$ 52.5	$ 431.1	$ (250.3)

[32] Amortization includes amortization of certain capitalized major maintenance costs.
[33] Adjusted to true-up anti-dumping duties expensed for accounting purposes to current accrual rates.
[34] Further information on cash flows may be found in the Company's annual consolidated financial statements.

THREE-YEAR COMPARATIVE REVIEW

(millions of Canadian dollars, except per share amounts)	2023	2022	2021
Sales	**$ 5,426.6**	$ 7,426.7	$ 7,684.9
Net income (loss)	**$ (348.5)**	$ 861.1	$ 1,458.8
Shareholder net income (loss)	**$ (326.1)**	$ 787.3	$ 1,341.6
Total assets	**$ 6,131.4**	$ 6,739.2	$ 6,173.9
Term debt	**$ 159.9**	$ 258.9	$ 246.0
Shareholder net income (loss) per share, basic and diluted	**$ (2.71)**	$ 6.39	$ 10.74

FOURTH QUARTER RESULTS
Overview

For the fourth quarter of 2023, the Company reported an operating loss of $191.3 million. After taking account of adjusting items, largely comprised of inventory valuation adjustments, the Company's operating loss for the fourth quarter of 2023 was $232.4 million compared to an adjusted operating loss of $85.9 million for the previous quarter, as an improvement in pulp and paper segment earnings quarter-over-quarter was more than offset by a decline in lumber segment results.

An overview of the results by business segment for the fourth quarter of 2023 compared to the third quarter of 2023 and the fourth quarter of 2022 follows.

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q4 2023	Q3 2023	Q4 2022
Sales[35]	**$ 1,089.0**	$ 1,123.5	$ 1,105.2
Operating income (loss) before amortization, asset write-down and impairment[35]	**$ (76.9)**	$ 84.1	$ (30.6)
Operating loss[35]	**$ (162.2)**	$ (1.3)	$ (199.5)
Asset write-down and impairment	**$ -**	$ -	$ 89.0
Inventory write-down (recovery)	**$ (30.2)**	$ (18.8)	$ 6.1
Adjusted operating loss[36]	**$ (192.4)**	$ (20.1)	$ (104.4)
Average Western SPF 2x4 #2&Btr lumber price in US$[37]	**$ 400**	$ 419	$ 410
Average Western SPF 2x4 #2&Btr lumber price in Cdn$[37,39]	**$ 545**	$ 562	$ 557
Average SYP 2x4 #2 lumber price in US$[38]	**$ 448**	$ 452	$ 451
Average SYP 2x4 #2 lumber price in Cdn$[38,39]	**$ 610**	$ 606	$ 613
Average SYP 2x6 #2 lumber price in US$[38]	**$ 333**	$ 404	$ 449
Average SYP 2x6 #2 lumber price in Cdn$[38,39]	**$ 454**	$ 542	$ 610
US housing starts (thousand units SAAR)[40]	**1,454**	1,371	1,405
Production – Western SPF lumber (MMfbm)[41]	**503**	495	507
Production – SYP lumber (MMfbm)[41]	**438**	451	388
Production – European lumber (MMfbm)[41]	**324**	278	349
Shipments – Western SPF lumber (MMfbm)[42]	**510**	534	464
Shipments – SYP lumber (MMfbm)[42]	**434**	443	371
Shipments – European lumber (MMfbm)[42]	**389**	311	404

[35] Q4 2023 includes sales of $324.7 million, operating loss of $2.3 million and operating income before amortization of $15.5 million from European operations (Q3 2023 – sales of $286.3 million, operating income of $14.1 million and operating income before amortization of $30.9 million; Q4 2022 – sales of $307.5 million, operating income of $26.9 million and operating income before amortization of $43.3 million). Operating income from European operations in Q4 2023 includes $9.3 million in incremental amortization and other expenses driven by the purchase price allocation at acquisition (Q3 2023 - $8.9 million; Q4 2022 - $9.2 million).
[36] Adjusted operating loss is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[37] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[38] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[39] Average lumber prices in Cdn$ calculated as average price in US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average for the period.
[40] Source – US Census Bureau, SAAR.
[41] Excluding production of trim blocks.
[42] Includes Canfor produced lumber, as well as lumber purchased for resale, remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

Markets

North American lumber market conditions remained fairly subdued throughout most of the fourth quarter as the market softness experienced at the end of the prior quarter continued well into the current period. This, combined with a traditionally slower consumption period, placed further downward pressure on North American benchmark pricing early in the current quarter. However, an unanticipated uptick in housing starts, coupled with the impact of production curtailments, particularly in BC, and steady activity in the repair and remodel sector, gave rise to a slight improvement in North American benchmark pricing towards the end of the current period.

Notwithstanding affordability headwinds, a lack of existing home inventory resulted in an uptick in new home construction activity in November, particularly for single-family homes, which consume approximately three times the volume of lumber compared to multi-family units. As a result, for the current quarter overall, US housing starts averaged 1,454,000 units on a seasonally adjusted basis, up 6% from the previous quarter, with single-family averaging 1,042,000 units, up 8% from the previous quarter. In Canada, housing starts averaged 244,000 units on a seasonally adjusted basis in the fourth quarter of 2023, down 4% from the previous quarter, primarily reflecting a decrease in multi-family homes, specifically in Quebec and Ontario, partially offset by an increase in BC.

Offshore lumber markets in Asia remained relatively flat during the current quarter, as ongoing economic uncertainty and a depressed real estate market, especially in China, was met with ample lumber supply in that region, and resulted in slight downward pressure on pricing.

In Europe, lumber demand and pricing experienced moderate decreases during the current quarter driven largely by low residential housing starts and a seasonally slower do-it-yourself sector.

Sales

Sales revenues for the lumber segment for the fourth quarter of 2023 were $1,089.0 million, down $34.5 million compared to the previous quarter and down $16.2 million from the fourth quarter of 2022. The 3% decrease in sales revenue over the prior quarter was predominantly driven by relatively weak global lumber market prices through most of the fourth quarter, and, to a lesser extent, a 3% decrease in North American shipment volumes. These factors more than outweighed the benefit of a 25% increase in European shipments, a 1 cent, or 2%, weaker Canadian dollar (versus the US-dollar), and a 3% weaker Canadian dollar (versus the SEK) in the current period.

Compared to the fourth quarter of 2022, sales revenues were down 1%, mainly due to a decline in global lumber market prices in the current quarter, offset in part by an 8% uplift in shipment volumes.

Total lumber shipments, at 1.3 billion board feet, were 3% higher than the previous quarter, as a 25% uplift in European lumber shipments, following the seasonal production downtime taken in the prior period, was moderated, to a degree, by a slight decline in North American lumber production and therefore, shipments, in the current period.

Compared to the fourth quarter of 2022, total lumber shipments were up 8%, largely reflecting a significant increase in SYP shipments, principally tied to the benefit of incremental shipment volumes associated with the ramp-up of the DeRidder sawmill through 2023. This factor was combined with an uplift in Western SPF shipments in the current period following an inventory build in the comparative period, offset in part by slightly lower European shipments attributable to reduced production quarter-over-quarter.

The average North American Random Lengths Western SPF 2x4 #2&Btr price began the period at US$390 per Mfbm and remained relatively flat through most of the fourth quarter. Towards the end of December, however, operational downtime in Western Canada reduced lumber supply in the region and led to a slight uptick in Western SPF 2x4 #2&Btr pricing, ending the year at US$440 per Mfbm. For the quarter overall, the North American Random Lengths Western SPF 2x4 #2&Btr price averaged US$400 per Mfbm, down US$19 per Mfbm, or 5%, from the previous quarter. The Company's Western SPF lumber unit sales realizations primarily reflected this decrease in US-dollar benchmark pricing as well as more pronounced pricing declines for certain wider-width and low-grade products. These factors were moderated, to a degree, by the 2% weaker Canadian dollar (versus the US-dollar).

The average North American SYP East 2x4 #2 price started the quarter at US$505 per Mfbm and gradually weakened throughout the period to a low of US$405 per Mfbm in November, before rebounding slightly in December, ending the year at US$470 per Mfbm. For the quarter overall, the SYP East 2x4 #2 price averaged US$448 per Mfbm, down US$4 per Mfbm, or 1%, from the previous quarter. Most wider-width SYP dimensions experienced notable price decreases compared to the prior period, including the North American SYP East 2x6 #2 price, which averaged US$333 per Mfbm in the current period, down US$71 per Mfbm, or 18%, from the previous quarter. Consequently, the Company experienced significant declines in its average SYP lumber unit sales realizations quarter-over-quarter.

The Company's European lumber unit sales realizations for the fourth quarter of 2023 were moderately lower than the previous quarter, principally reflecting the aforementioned pricing pressure in European lumber markets, offset to a degree by the 3% weaker Canadian dollar (versus the SEK).

Compared to the fourth quarter of 2022, the Company's lumber unit sales realizations were down significantly in Western Canada and the US South, and slightly in Europe. In Western Canada, the decline in lumber unit sales realizations largely reflected a US$10 per Mfbm, or 2%, drop in the average North American Random Lengths Western SPF 2x4 #2&Btr price, coupled with a significant decrease in benchmark pricing for wider-width dimensions, and, to a lesser extent, unfavourable movements in offshore unit sales realizations quarter-over-quarter. The decline in the Company's SYP lumber unit sales realizations primarily reflected the US$116 per Mfbm, or 26%, decrease in the average SYP East 2x6 #2 price over the same comparative period, and, to a lesser extent, the US$3 per Mfbm, or 1%, drop in the average SYP East 2x4 #2 price. The slight decrease in the Company's European lumber unit sales realizations in the current period was primarily attributable to downward pressure on European market demand and pricing.

Other revenues for the Company's lumber segment (which are primarily comprised of residual fibre, pulp log, and pellets sales, as well as the Company's European operations' other related revenues) increased significantly compared to the previous quarter, primarily due to the impact of the seasonal production downtime taken at the Company's European operations in the prior quarter, offset in part by a decrease in engineered wood sales in the US South quarter-over-quarter. Compared to the fourth quarter of 2022, other revenues were moderately higher, largely reflecting an uplift in pellet sales from the Company's European operations in the current quarter, moderated to a degree, by a decline in log sales at the Company's Western Canadian operations and a reduction in engineered wood sales from the Company's US South operations in the current period.

Operations

Total lumber production, at 1.27 million board feet, was 3% higher than the prior quarter, as the benefit of increased operating days at the Company's European operations following the aforementioned seasonal downtime, was offset in part, by a 3% decline in SYP lumber production, stemming from an increase in statutory holidays in the fourth quarter. In Western Canada, production was up 2% quarter-over-quarter, as the benefit of a slight reduction in fibre and market-related curtailments in the current period (approximately 140 million board feet in the current quarter versus 200 million board feet in the prior quarter) was largely offset by a rebuild of rough green lumber inventories in the current quarter following curtailments in the comparative period.

Compared to the fourth quarter of 2022, total lumber production was up 2%, primarily driven by increased SYP production, tied to the start-up of the Company's newly constructed DeRidder sawmill in early 2023. In Europe, decreased production in the current period was principally a result of intermittent log availability in the region, while in Western Canada, production was broadly comparable quarter-over-quarter.

Lumber unit manufacturing and product costs were relatively in line with the previous quarter, as reduced log costs in the current period were offset by a moderate uptick in per-unit cash conversion costs, principally tied to a seasonal increase in energy costs in Europe. In BC, lower log costs were primarily correlated with reduced market-based stumpage rates in the current quarter following the continued declines in Western SPF benchmark lumber pricing. These log cost reductions were offset in part by market-based log price increases in Europe stemming from ongoing log supply constraints. Log costs in the US South were broadly comparable quarter-over-quarter.

Compared to the fourth quarter of 2022, lumber unit manufacturing and product costs experienced a moderate decline, reflecting a reduction in both log costs and, to a lesser extent, per-unit cash conversion costs. Log cost decreases were most notable in Western Canada, largely due to significantly lower BC stumpage costs in the current quarter (associated with the drop in Western SPF benchmark lumber prices throughout 2023), offset in part by higher European log costs principally tied to log supply pressures in that region. Lower per-unit cash conversion costs were primarily driven by Western Canada, reflecting reduced cash spend on labour and energy in that region in the current quarter. These reductions in Western Canada were offset, to a degree, by higher per-unit cash conversion costs in Europe in the current period attributable to inflationary related pressures on spend.

Asset Write-Downs and Impairments

No asset write-down or impairment charge was recorded in the fourth quarter of 2023 on the property, plant and equipment and timber licenses for the Company's Western Canadian lumber operations, whereas results in the fourth quarter of 2022 included an impairment expense of $89.0 million. See "Critical Accounting Estimates – Asset Write-Downs and Impairments" for further details.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[43]

Summarized results for the Pulp and Paper segment for the fourth quarter of 2023, third quarter of 2023 and fourth quarter of 2022 were as follows:

(millions of Canadian dollars, unless otherwise noted)		Q4 2023		Q3 2023		Q4 2022
Sales	**$**	**193.9**	$	188.8	$	268.1
Operating income (loss) before amortization, asset write-down and impairment[44]	**$**	**1.1**	$	(27.7)	$	(15.1)
Operating loss	**$**	**(15.1)**	$	(49.3)	$	(91.1)
Asset write-down and impairment	**$**	**-**	$	-	$	49.6
Inventory write-down (recovery)	**$**	**(10.9)**	$	(2.0)	$	(0.5)
Adjusted operating loss[45]	**$**	**(26.0)**	$	(51.3)	$	(42.0)
Average NBSK pulp price delivered to China – US$[46]	**$**	**748**	$	680	$	920
Average NBSK pulp price delivered to China – Cdn$[46]	**$**	**1,019**	$	912	$	1,250
Production – pulp (000 mt)		**148**		123		160
Production – paper (000 mt)		**34**		32		32
Shipments – pulp (000 mt)		**136**		142		170
Shipments – paper (000 mt)		**32**		30		32

[43] Includes 100% of CPPI, which is consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both NBSK pulp and BCTMP (2022 only).
[44] Amortization includes amortization of certain capitalized major maintenance costs.
[45] Adjusted operating loss is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[46] Per tonne, NBSK pulp list net price delivered to China (as published by RISI); Average NBSK pulp list net price delivered to China in Cdn$ calculated as average NBSK pulp list net price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.

Markets

Following a relatively weak second and third quarter of 2023, global softwood pulp markets moderately improved in the current quarter, largely reflecting a slight uptick in demand and purchasing activity in most major regions as global pulp producer inventories returned to a more balanced range. As a result, the positive pricing momentum in US-dollar NBSK list prices to China experienced towards the end of the prior quarter, continued well into in the current period, with prices peaking in November 2023. For the current quarter overall, average US-dollar NBSK pulp list prices to China were US$748 per tonne, up US$68 per tonne, or 10%, from the previous quarter, but down US$172 per tonne, or 19%, compared to the fourth quarter of 2022. Prices to other global regions experienced more modest increases in the current period, with the average US-dollar NBSK pulp list price to North America at US$1,312 per tonne (before discounts), up US$19 per tonne, or 1%, from the prior quarter. Compared to the fourth quarter of 2022, however, pulp list prices to North America were down US$433 per tonne, or 25%.

Global softwood pulp producer inventories were relatively steady throughout the current quarter and within the balanced range, ending December 2023 at 40 days of supply, a two day increase from September 2023. Market conditions are generally considered balanced when inventories are in the 32-43 days of supply range.

The softness in global kraft paper market conditions experienced at the end of the previous quarter continued through most of the fourth quarter of 2023, with an uptick in demand seen in the latter part of the period.

Sales

CPPI's pulp shipments for the fourth quarter of 2023 totaled 136,000 tonnes, down 6,000 tonnes, or 4%, from the previous quarter, principally due to the delayed restart of Northwood at the end of September and into October, impacting shipments early in the current period. This was combined with, to a lesser degree, the replenishment of inventory levels reduced in the prior quarter as a result of the aforementioned late start-up.

Compared to the fourth quarter of 2022, pulp shipments were down 34,000 tonnes, or 20%, primarily reflecting an 8% decline in pulp production quarter-over-quarter, combined with a drawdown of inventory levels in the comparative period as a result of an Intercon fibre-related curtailment late in 2022 as well as the timing of vessels quarter-over-quarter.

CPPI's average NBSK pulp unit sales realizations experienced a moderate improvement compared to the previous quarter, principally tied to the 10% increase in US-dollar NBSK pulp list prices to China and the 2% weaker Canadian dollar, offset, in part, by an unfavourable timing lag in shipments (versus orders). Compared to the fourth quarter of 2022, CPPI's average NBSK pulp unit sales realizations saw a substantial decline, driven by the aforementioned downward pressure on global US-dollar pulp list pricing.

Energy revenues increased compared to both comparative periods, principally driven by the quarter-over-quarter uplift in pulp productivity at Northwood and Intercon, and the correlated benefit on energy generation.

CPPI's paper shipments in the fourth quarter of 2023 were 32,000 tonnes, up 2,000 tonnes from the previous quarter, and consistent with the fourth quarter of 2022, principally tied to the timing of shipments around quarter-end.

Paper unit sales realizations in the fourth quarter of 2023 were slightly lower than the previous quarter, as the decline in global US-dollar paper pricing through most of the current period was largely offset by the weaker Canadian dollar. Compared to the fourth quarter of 2022, paper unit sales realizations experienced a moderate decrease, primarily reflecting weaker US-dollar pricing quarter-over quarter.

Operations

Pulp production was 148,000 tonnes for the fourth quarter of 2023, up 25,000 tonnes, or 20%, from the third quarter of 2023, largely reflecting improved NBSK productivity in the current period. Following the successful completion of a scheduled maintenance outage in September, the restart of Northwood was delayed into the fourth quarter of 2023, resulting in approximately 30,000 tonnes of reduced NBSK pulp production early in the current period. For the quarter overall however, the operating performance at Northwood and Intercon continued to improve as the quarter progressed, despite some minor challenges with operational reliability, which impacted NBSK production by approximately 10,000 tonnes in the current period.

In the third quarter of 2023, CPPI curtailed Northwood for approximately one week as a result of labour disputes at the Ports of Vancouver and Prince Rupert, which reduced NBSK pulp production by approximately 10,000 tonnes. In addition, the scheduled maintenance outage at Northwood was completed as planned, and reduced NBSK pulp production by approximately 25,000 tonnes. While persistent reliability challenges at Northwood and a delayed restart resulted in a further reduction of approximately 30,000 tonnes in the third quarter.

Compared to the fourth quarter of 2022, pulp production was down 12,000 tonnes, or 8%, primarily reflecting operational footprint changes, which took effect in April, offset by reduced downtime and improved NBSK productivity in the current period. In the comparative 2022 period, the operating performance at both Intercon and Northwood were significantly impacted by a shortage of economic fibre and winter conditions in BC. These factors, in combination with the completion of a scheduled maintenance outage at Intercon, reduced NBSK pulp production by approximately 90,000 tonnes in the fourth quarter of 2022.

Pulp unit manufacturing costs experienced a moderate decrease compared to the prior quarter, as seasonally higher energy usage and an increase in chemical costs in the current period were more than offset by the benefit of increased production and lower fibre costs. While the proportion of higher cost whole log chips stayed relatively unchanged quarter-over-quarter, fibre costs were slightly lower than the previous quarter largely due to a reduction in market-based prices for sawmill residual chips (linked to lower Canadian dollar NBSK pulp sales realizations in the prior quarter due to a lag in chip consumption tied to aforementioned downtime at Northwood).

Compared to the fourth quarter of 2022, pulp unit manufacturing costs were substantially lower, mostly attributable due to a decline in fibre costs in the current period, principally tied to lower market-based prices for sawmill residual chips, as well as reduced energy pricing and lower maintenance costs (timing-related).

Paper production for the fourth quarter of 2023 was 34,000 tonnes, an increase of 2,000 tonnes compared to both comparative periods, principally driven by improved productivity.

Paper unit manufacturing costs were modestly higher than the third quarter of 2023, primarily reflecting notably higher slush pulp costs (associated with increased Canadian dollar average NBSK pulp unit sales realizations) and increased maintenance spend in the current period (timing-related). Compared to the fourth quarter of 2022, paper unit manufacturing costs saw a substantial decrease, driven by lower slush pulp costs (tied to decreased Canadian dollar NBSK pulp unit sales realizations), offset by higher chemicals, maintenance, and energy costs quarter-over-quarter.

Asset Write-Down and Impairment

CPPI did not record any additional asset write-down and impairment charge in the fourth quarter of 2023 on the property, plant, and equipment for the pulp and paper segment, whereas results in the fourth quarter of 2022 included an impairment expense of $49.6 million. See "Critical Accounting Estimates – Asset Write-Downs and Impairments" for further details.

Unallocated and Other Items

(millions of Canadian dollars)	Q4 2023	Q3 2023	Q4 2022
Corporate costs	**$ (14.0)**	$ (14.5)	$ (17.4)
Finance income, net	**$ 2.7**	$ 5.6	$ 3.8
Foreign exchange gain (loss) on term debt and duty deposits recoverable, net	**$ (0.3)**	$ 3.8	$ (9.4)
Gain on derivative financial instruments	**$ 9.0**	$ 4.9	$ 4.7
Other income (expense), net	**$ 4.6**	$ 3.9	$ (10.2)

Corporate costs were $14.0 million for the fourth quarter of 2023, down $0.5 million from the previous quarter primarily reflecting a decrease in legal costs associated with the softwood lumber dispute, and down $3.4 million compared to the fourth quarter of 2022, largely correlated with a donation to the Company's Foundation in the comparative period.

Net finance income of $2.7 million in the fourth quarter of 2023 was down $2.9 million from the previous quarter, as an increase in interest income related to US-dollar short term investments quarter-over-quarter was more than offset by lower accrued interest income associated with recoverable duty deposits in the current period. In the third quarter of 2023, net finance income were principally comprised of accrued interest income on recoverable duty deposits following the finalization of CVD and ADD rates for POR4. Net finance income of $3.8 million in the fourth quarter of 2022 primarily consisted of interest income related to US-dollar short term investments and, to a lesser extent, accrued interest income associated with recoverable duty deposits.

In the fourth quarter of 2023, the Company recognized a foreign exchange loss of $6.4 million on its US-dollar denominated net duty deposits recoverable at the close of the current quarter, mostly offset by a gain of $6.1 million on its US-dollar term debt held by Canadian entities, due to the strengthening of the Canadian dollar at the end of the current quarter compared to the end of September 2023.

At times, the Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in lumber prices, energy costs, interest, and foreign exchange rates. In the fourth quarter of 2023, the Company recognized a net gain of $9.0 million, primarily related to realized and unrealized gains on SEK foreign exchange forward contracts, offset in part by unrealized mark-to-market losses on lumber futures contracts.

Other income, net, of $4.6 million in the fourth quarter of 2023, was primarily comprised of mark-to-market gains on investments in certain highly liquid funds, partly offset by unfavourable foreign exchange movements on US-dollar denominated working capital at the end of the current period compared to the end of the prior quarter. Other income, net, of $3.9 million in the third quarter of 2023 principally reflected favourable foreign exchange movements on US-dollar denominated working capital balances, combined with CPPI's receipt of incremental insurance proceeds related to operational downtime experienced at Northwood in recent years. In the fourth quarter of 2022, other expense, net, of $10.2 million was largely related to unfavourable foreign exchange movements on US-dollar denominated working capital balances.

Subsequent to quarter end, on March 1, 2024, CPPI received insurance proceeds totalling $15.0 million related to operational downtime experienced at Northwood in recent years that will be recognized in 'Other income, net', during the first quarter of 2024.

Other Comprehensive Income

(millions of Canadian dollars)	Q4 2023	Q3 2023	Q4 2022
Defined benefit plan actuarial gain (loss), net of tax	**$ 5.5**	$ (2.5)	$ (4.2)
Foreign exchange translation differences for foreign operations, net of tax	**$ 10.8**	$ 50.5	$ 40.6
Other comprehensive income, net of tax	**$ 16.3**	$ 48.0	$ 36.4

In the fourth quarter of 2023, the Company recorded a gain of $7.5 million (before tax) in relation to the changes in the valuation of the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), as a 0.6% decrease in the discount rate used to value the net defined benefit obligations was more than offset by higher than anticipated returns on plan assets.

This compared to a loss of $3.3 million (before tax) recognized in the third quarter of 2023, largely reflecting lower than anticipated returns on plan assets that more than offset a 0.3% increase in the discount rate used to value the net defined benefit obligations.

In the fourth quarter of 2022, the Company recorded a loss of $5.8 million (before tax), primarily reflecting updated membership data, partially offset by a greater than anticipated return on plan assets.

For more information, see the "Employee Future Benefits" part of the "Critical Accounting Estimates" section later in this report.

In addition, the Company recorded an accounting gain of $10.8 million in the fourth quarter of 2023 related to foreign exchange differences for foreign operations mostly reflecting the weakening of the Canadian dollar relative to SEK at the end of the current quarter, offset in part by the strengthening of the Canadian dollar relative to the US-dollar over the same comparative period. This compared to a gain of $50.5 million in the previous quarter and a gain of $40.6 million in the fourth quarter of 2022.

CHANGES IN FINANCIAL POSITION

At the end of 2023, Canfor had $627.4 million of cash and cash equivalents.

(millions of Canadian dollars)	**Q4 2023**	Q3 2023	Q4 2022
Decrease in cash and cash equivalents[47]	**$ (229.7)**	$ (35.4)	$ (358.5)
Operating activities	**$ (8.4)**	$ 205.6	$ (52.8)
Financing activities	**$ (48.1)**	$ (8.5)	$ (50.7)
Investing activities	**$ (173.2)**	$ (232.5)	$ (255.0)
Ratio of current assets to current liabilities	**2.5:1**	2.6:1	3.5:1
Net cash to total capitalization[48]	**(9.1)%**	(14.2)%	(26.0)%
Cumulative duty deposits paid	**$ 931.0**	$ 920.2	$ 887.9

[47] Decrease in cash and cash equivalents shown before foreign exchange translation on cash and cash equivalents.
[48] Net cash to total capitalization is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details

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

Operating Activities

Cash used from operating activities was $8.4 million in the fourth quarter of 2023, compared to cash generated of $205.6 million in the previous quarter and cash used of $52.8 million in the fourth quarter of 2022. The $214.0 million decrease in operating cash flows from the previous quarter primarily reflected unfavourable movements in non-cash working capital combined with impact of the receipt of income tax refunds in the previous quarter. The former primarily reflected seasonally higher log and an increase in finished lumber inventories at the end of the current period, combined with a timing-related decrease in accounts payable and accrued liabilities. Compared to the fourth quarter of 2022, operating cash flows were up $44.4 million, principally due to higher income taxes paid in the comparative period.

Financing Activities

Cash used in financing activities was $48.1 million in the current quarter, compared to cash used of $8.5 million in the previous quarter and $50.7 million in the fourth quarter of 2022. Financing activities in the current quarter primarily reflected a $46.0 million repayment of long-term debt, offset in part by a net $26.5 million draw-down of the Company's operating loan facilities (refer to the "Liquidity and Financial Requirements" section for further details). These activities were combined with $9.5 million of share repurchases as well as lease and interest payments. In the previous quarter, cash used from financing activities were principally comprised of $12.2 million of share repurchases, offset in part by a net $19.3 million draw-down of the Company's operating loan facilities. Cash used in financing activities in the fourth quarter of 2022 largely consisted of $30.3 million of share purchases, as well as lease and interest payments.

Investing Activities

Cash used for investing activities was $173.2 million in the current quarter, compared to $232.5 million in the previous quarter and $255.0 million in the same quarter of 2022. Investing activities in the current quarter were primarily comprised of capital additions.

Capital additions in the fourth quarter of 2023 were $172.1 million, down $20.8 million from the previous quarter and down $105.7 million from the fourth quarter of 2022. In the lumber segment, current quarter capital expenditures principally reflected construction costs associated with the Company's Axis sawmill, and to a lesser extent, ongoing spend related to the upgrade and expansion of the Company's Urbana sawmill in Arkansas, as well as maintenance-of-business capital across all lumber operating regions. In the pulp and paper segment, capital expenditures were largely associated with maintenance-of-business capital spend.

SPECIFIC ITEMS AFFECTING COMPARABILITY

Specific Items Affecting Comparability of Shareholder Net Income (Loss)

Factors that impact the comparability of the quarters are noted below:

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except for per share amounts)	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Shareholder net income (loss), as reported	**$ (117.1)**	**$ (23.1)**	**$ (43.9)**	**$ (142.0)**	$ (207.9)	$ 87.4	$ 373.8	$ 534.0
Foreign exchange (gain) loss on term debt	**$ (5.3)**	**$ 6.4**	**$ (6.7)**	**$ (0.4)**	$ (1.7)	$ 10.6	$ 4.9	$ (3.0)
(Gain) loss on derivative financial instruments	**$ (4.8)**	**$ (2.7)**	**$ 6.3**	**$ (2.5)**	$ (2.0)	$ 0.5	$ 1.0	$ (2.0)
Asset write-downs and impairments	**$ -**	**$ -**	**$ -**	**$ -**	$ 84.8	$ -	$ -	$ -
Net impact of above items	**$ (10.1)**	**$ 3.7**	**$ (0.4)**	**$ (2.9)**	$ 81.1	$ 11.1	$ 5.9	$ (5.0)
Adjusted shareholder net income (loss)[49]	**$ (127.2)**	**$ (19.4)**	**$ (44.3)**	**$ (144.9)**	$ (126.8)	$ 98.5	$ 379.7	$ 529.0
Shareholder net income (loss) per share (EPS), as reported	**$ (0.98)**	**$ (0.19)**	**$ (0.36)**	**$ (1.17)**	$ (1.70)	$ 0.71	$ 3.02	$ 4.29
Net impact of above items per share	**$ (0.08)**	**$ 0.03**	**$ -**	**$ (0.03)**	$ 0.66	$ 0.09	$ 0.05	$ (0.04)
Adjusted net income (loss) per share[49]	**$ (1.06)**	**$ (0.16)**	**$ (0.36)**	**$ (1.20)**	$ (1.04)	$ 0.80	$ 3.07	$ 4.25

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

OUTLOOK

Lumber Markets

Looking ahead, global lumber market conditions are anticipated to remain under pressure through the first quarter of 2024, as near-term challenges of affordability are projected to persist, despite recent declines in mortgage rates in the US. On the supply side, it is forecast that operational disruptions, driven by geopolitical tensions as well as fibre and market-related curtailments, especially in Western Canada, will help reduce inventories to more normalized levels. In the repair and remodel sector, demand is projected to remain relatively steady through the first quarter of 2024, albeit declining slightly from the levels experienced in 2023. Despite the near-term challenges, underlying global lumber market fundamentals in the longer term remain solid, with demographic trends supporting the need for additional new home construction activity against the backdrop of an aging housing stock and low inventories of new homes available.

Offshore lumber demand in China and Japan is forecast to show signs of modest improvement through the first quarter of 2024, as the benefits of various government stimulus measures implemented in that region in 2023 are realized and inventories return to more normalized levels.

In Europe, lumber markets and pricing are anticipated to experience some upward momentum later in the first quarter of 2024, as lumber supply constraints in that region, tied in part to reduced log availability and increasing log costs, are projected to overshadow the ongoing impact of low levels of European residential construction activity.

From an operational perspective, there remains significant uncertainty with regards to the availability of economically viable fibre in BC. While the Company has taken a number of actions in recent years in response to these fibre constraints, including the aforementioned closures and capacity reductions, the near-term fibre outlook in BC remains challenging. The Company continues to anticipate sustained log cost pressures and persistent constraints accessing economically viable fibre in BC for its sawmills, as well as a challenging fibre supply environment for CPPI's pulp mills. With these continued fibre-related pressures and the projected weaker North American lumber market demand and pricing in the near-term, the Company will continue to adjust operating rates in BC to align with demand and economically available timber supply.

Pulp and Paper Markets

Looking forward, global softwood kraft pulp markets are projected to be fairly subdued through the first quarter of 2024. While global pulp producer inventories are estimated to remain within the balanced range, demand uncertainty is anticipated, driven principally by the deceleration in China NBSK pulp list prices in December and leading up to the seasonally slower spring period in China.

CPPI has no major maintenance outages planned for the first quarter of 2024. In the second quarter of 2024, a maintenance outage is scheduled at Intercon, with a projected 5,000 tonnes of reduced NBSK market pulp production.

Given the ongoing uncertainty with regards to the availability of economically viable fibre in BC, and a projected weak North American lumber market, CPPI anticipates a challenging fibre supply environment for its pulp mills (both for sawmill residual chips and whole-log chips), especially in the near-term. CPPI will continue to monitor operating conditions and will adjust operating rates at its pulp mills to align with economically viable fibre supply.

Bleached kraft paper markets are projected to remain solid through the first quarter of 2024 as the uptick in global paper demand towards the end of 2023 is anticipated to continue. A maintenance outage is currently planned at CPPI's paper machine in the second quarter of 2024 with a projected 5,000 tonnes of reduced paper production.

NON-IFRS FINANCIAL MEASURES

Throughout this MD&A, reference is made to certain non-IFRS financial measures which are used to evaluate the Company's performance but are not generally accepted under IFRS. The following table provides a reconciliation of these non-IFRS financial measures to figures reported in the Company's consolidated financial statements:

(millions of Canadian dollars)	**Q4 2023**	Q3 2023	**YTD 2023**	Q4 2022	YTD 2022
Reported operating income (loss)	**$ (191.3)**	$ (65.1)	**$ (531.6)**	$ (308.0)	$ 1,074.1
Asset write-downs and impairments	**$ -**	$ -	**$ -**	$ 138.6	$ 138.6
Inventory write-down (recovery), net	**$ (41.1)**	$ (20.8)	**$ (57.2)**	$ 5.6	$ 93.5
Adjusted operating income (loss)	**$ (232.4)**	$ (85.9)	**$ (588.8)**	$ (163.8)	$ 1,306.2
Amortization	**$ 102.2**	$ 107.7	**$ 420.4**	$ 106.8	$ 397.2
Adjusted operating income (loss) before amortization, asset write-downs and impairments	**$ (130.2)**	$ 21.8	**$ (168.4)**	$ (57.0)	$ 1,703.4

(millions of Canadian dollars, except ratios)	**2023**	2022
Reported operating income (loss)	**$ (531.6)**	$ 1,074.1
Realized (gain) loss on derivative financial instruments	**$ (4.2)**	$ 0.2
Other income, net	**$ 19.9**	$ 27.1
Non-controlling interests and other	**$ 39.0**	$ (112.6)
Return	**$ (476.9)**	$ 988.8
Average invested capital[50]	**$ 4,166.9**	$ 3,801.3
Return on invested capital (ROIC)	**(11.4)%**	26.0%

[50] Average invested capital represents the average during the period of total assets excluding cash and cash equivalents and total liabilities excluding term debt, retirement benefit obligations, long-term deferred reforestation obligations, and deferred taxes, net of non-controlling interests.

(millions of Canadian dollars, except ratios)	**As at December 31, 2023**	As at December 31, 2022
Term debt	**$ 159.9**	$ 258.9
Operating loans	**$ 110.6**	$ 27.8
Less: Cash and cash equivalents	**$ 627.4**	$ 1,268.7
Net cash	**$ (356.9)**	$ (982.0)
Total equity	**$ 4,277.4**	$ 4,762.8
Total capitalization	**$ 3,920.5**	$ 3,780.8
Net cash to total capitalization	**(9.1)%**	(26.0)%

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the amounts recorded in the consolidated financial statements. Management regularly reviews these estimates and assumptions based on currently available information. While it is reasonably possible that circumstances may arise, which cause actual results to differ from these estimates, Management does not believe it is likely that any such differences will materially affect Canfor's financial position, other than the possibility of material effects to the income statement from the Company's estimated ADD net duty deposits recoverable as discussed in Notes 9 and 28 of the consolidated financial statements. Unless otherwise indicated, the critical accounting estimates discussed affect all of the Company's reportable segments.

Employee Future Benefits

Canfor has various defined benefit and defined contribution plans providing both pension and other non-pension post-retirement benefits to most of its salaried employees and certain hourly employees not covered by forest industry union plans. Canfor also provides certain health care benefits and pension bridging benefits to eligible retired employees. The costs and related obligations of the pension and other retirement benefit plans are accrued in accordance with the requirements of IFRS.

Canfor uses independent actuarial firms to perform actuarial valuations of the fair value of pension and other retirement benefit plan obligations. The application of IFRS requires judgments regarding certain assumptions that affect the accrued benefit provisions and related expenses, including the discount rate used to calculate the present value of the obligations, the rate of compensation increases, mortality assumptions, and the assumed health care cost trend rates. Management evaluates these assumptions quarterly based on experience and the recommendations of its actuarial firms. Changes in these assumptions result in actuarial gains or losses, which are recognized in full in each period with an adjustment through other comprehensive income (loss).

The actuarial assumptions used in measuring Canfor's benefit plan provisions and benefit costs are as follows:

	December 31, 2023		December 31, 2022	
	Defined Benefit Pension Plans	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Discount rate	**4.6%**	**4.6%**	4.8%	4.8%
Rate of compensation increases	**2.0%**	**n/a**	3.0%	n/a
Initial medical cost trend rate	**n/a**	**5.0%**	n/a	5.0%
Ultimate medical cost trend rate	**n/a**	**4.5%**	n/a	4.5%
Year ultimate rate is reached	**n/a**	**2031**	n/a	2025

Assumed discount rates, medical cost trend rates and mortality assumptions have a significant effect on the accrued benefit obligation and related plan assets. In addition, the average life expectancy of a 65-year-old at December 31, 2023 is between 21.4 years and 24.4 years. As at December 31, 2023, the weighted average duration of the defined benefit obligation, which reflects the average age of the plan members, is 12.4 years. The weighted average duration of the other benefit plans is 11.2 years.

(millions of Canadian dollars)	1% Increase	1% Decrease
Defined benefit pension plan liabilities		
Discount rate	$ (35.8)	$ 43.5
Other benefit plan liabilities		
Discount rate	$ (6.2)	$ 7.4
Initial medical cost trend rate	$ 2.8	$ (2.7)

For Canfor's pension benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the accrued benefit obligation by an estimated $35.8 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation by an estimated $43.5 million. With respect to this discount rate sensitivity effect on the defined benefit pension plan liabilities, however, it is noted that 41% is partially offset through the plan's investment in debt securities. These changes would only impact the Company's funding requirements in years where a new actuarial funding valuation was performed and regulatory approval for a change in funding contributions was obtained.

Annuity Contracts

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 consolidated balance sheet as at December 31, 2022. No annuity contracts were held by the Company as at December 31, 2023.

Subsequent to year-end, on February 20, 2024, the Company purchased a buy-out annuity for a portion of its defined benefit pension plans. As a result, during the first quarter of 2024, $101.8 million of the accrued benefit obligation and a similar amount of defined benefit plan assets were derecognized from the Company's consolidated balance sheet.

Deferred Reforestation

Canfor accrues an estimate of its future liability to perform forestry activities, defined to mean those silviculture treatments or activities that are carried out to ensure the establishment of a free-growing stand of young trees, including logging road rehabilitation on its forestry tenures in BC and Alberta. An estimate is recorded in the consolidated financial statements based on the number of hectares of timber harvested in the period and the estimated costs of fulfilling Canfor's obligation. Payments in relation to reforestation are expected to occur over periods of up to 15 years and have been discounted accordingly at risk-free rates ranging from 3.1% to 4.7%. The actual costs that will be incurred in the future may vary based on, among other things, the actual costs at the time of silviculture activities.

Deferred Taxes

In accordance with IFRS, Canfor recognizes deferred income tax assets when it is probable that the deferred income tax assets will be realized. This assumption is based on Management's best estimate of future circumstances and events. If these estimates and assumptions are changed in the future, the value of the deferred income tax assets could be reduced or increased, resulting in an income tax expense or recovery. Canfor re-evaluates its deferred income tax assets on a regular basis.

Asset Retirement Obligations

Canfor records the estimated fair value of a liability for asset retirement obligations, such as landfill closures, in the period when it is incurred. For landfill closure costs, the fair value is determined using estimated closure costs discounted over the estimated useful life. Canfor's asset retirement obligations represent estimated undiscounted future payments of $15.7 million to remediate landfills at the operations at the end of their useful lives. Payments relating to landfill closure costs are expected to occur at periods ranging from 3 to 43 years and have been discounted at risk-free rates ranging from 3.0% to 3.7%. The actual closure costs and periods of payment may differ from the estimates used in determining the year-end liability. On initial recognition, the fair value of the liability is added to the carrying amount of the associated asset and amortized over its useful life. The liability is accreted over time through charges to earnings and reduced by actual costs of settlement.

CPPI's asset retirement obligations represent estimated undiscounted future payments of $9.3 million to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur at periods ranging from 2 to 28 years and have been discounted at risk-free rates ranging from 3.0% to 3.9%.

CPPI has certain assets that have indeterminable retirement dates and, therefore, there is an indeterminate settlement date for the related asset retirement obligations. As a result, no asset retirement obligations are recorded for these assets. These assets include wastewater and effluent ponds that will have to be drained once the related operating facility is closed and storage sites for which removal of chemicals, fuels and other related materials will be required once the related operating facility is closed. When the retirement dates of these assets become determinable and an estimate can be made, an asset retirement obligation will be recorded. It is possible that changes in future conditions could require a material change in the recognized amount of the asset retirement obligations.

Environmental Remediation Costs

Costs associated with environmental remediation obligations are accrued and expensed when there exists a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are discounted to their present value when the amount and timing of expected cash payments are reliably determinable.

Asset Write-Downs and Impairments

The Company reviews the carrying values of its long-lived assets, including timber licenses, property, plant and equipment and right-of-use assets, on a regular basis as events or changes in circumstances may warrant. An impairment loss is recognized in net income (loss) at the amount that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Although the availability of economically available fibre in BC remains a challenge, based on a detailed assessment during the Company's annual impairment review, no indicators of impairment were identified for the lumber segment and no impairment was recognized for the year ended December 31, 2023 (2022 - asset write-down and impairment charge of $89.0 million for the lumber segment).

For the pulp and paper segment, the continued uncertainty surrounding fibre availability for CPPI's pulp mills and depressed market conditions were identified as impairment indicators, and as a result, the Company performed an impairment test as of December 31, 2023, on the property, plant and equipment of its pulp operations.

The recoverable amount of 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. The 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 included future production volume, commodity prices, fibre and production costs, as well as the discount rate. Other assumptions included applicable foreign exchange rates, operating rates of the assets, and future capital required to maintain the current operating condition of assets. Estimated future cash flows were discounted at a rate of 9% (12% before tax), based on CPPI's weighted average cost of capital for 2023.

As the recoverable amount of CPPI's property, plant and equipment of the pulp operations exceeded net book value at December 31, 2023, no impairment charge was recognized for the pulp and paper segment for the year ended December 31, 2023 (2022 - asset write-down and impairment charge of $49.6 million for the pulp and paper segment).

CPPI continues to closely monitor the direct and indirect impacts associated with the constraints on economic fibre, especially in the near-term. If the availability of economically viable fibre within BC is further reduced, however, CPPI's production, shipments and cost structure will be further affected. These factors could impact CPPI's operating plan, liquidity, cash flows and the valuation of long-lived assets.

Impairment of Goodwill

Goodwill, which is the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired, is not amortized, but is assessed annually for impairment, or more frequently if events or circumstances indicate that it may be impaired. Canfor's goodwill relates to its US, European and Canadian subsidiaries and is denominated in US-dollars, SEK and Canadian dollars, respectively.

Goodwill is allocated separately to each of the Company's cash generating units and tested at that level for impairment purposes. The recoverable amount of goodwill is determined based on an assessment of value in use, estimated using discounted cash flow models. Key assumptions used in the cash flow models include forecast prices and foreign exchange rates, which Management determined with reference to both internal and external publications. For the 2023 goodwill impairment assessments, a discount rate of 10% for the US and Europe and 11% for Canada (13% before tax for the US, 12% before tax for Europe, and 15% before tax for Canada) was utilized, based on the Company's current weighted average cost of capital.

In this analysis prepared by Management, the net present value of future expected cash flows was compared to the carrying value of the Company's investment in these assets, including goodwill, at year end, with no impairment of goodwill required at December 31, 2023. If actual results are materially lower than the forecast assumptions, there is a possibility that an impairment of goodwill may be required in future periods.

Valuation of Log and Finished Product Inventories

Log and finished product inventories are recorded at the lower of cost and net realizable value. The cost of inventories of solid wood products, is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs, and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. Canfor estimates the net realizable value of solid wood products by taking into account actual and forecasted sales orders, as well as outlook prices and forecast exchange rates for the period over which the inventories are expected to be sold. Outlook prices are determined using Management's estimates at the end of the period and may differ from the actual prices at which the inventories are sold.

RISKS AND UNCERTAINTIES

Risks and uncertainties fall into the general business areas of markets, international commodity prices, competition, currency exchange rates, environmental issues, forest land base, government legislation and regulations, public policy, and labour disputes, and, for Canadian companies, a history of trade disputes and issues and Indigenous land claims. The future impact of the various uncertainties and potential risks described in the following paragraphs (together with the risks and uncertainties identified under each of the Company's business segments) cannot be quantified or predicted with certainty. However, Canfor does not foresee unmanageable adverse effects on its business operations from and believes that it is well positioned to deal with, such matters as may arise. The risks and uncertainties are set out in alphabetical order.

Climate Change

The Company's operations are subject to risks and opportunities related to climate change. These risks include, but are not limited to, chronic and acute physical risks such as the increasing frequency and severity of weather conditions, forest fires, hurricanes, and timber diseases and insect infestations. These events could damage or destroy the Company's operating facilities, adversely affect Canfor's timber supply, or result in reduced transportation availability. These events could have a similar effect on the facilities of the Company's suppliers and customers. Any of the damage caused by these events could increase costs and decrease production capacity at the Company's operations having an adverse effect on the Company's financial results. The Company believes there are reasonable internal processes and insurance arrangements in place to mitigate or cover certain outcomes of such incidents; however, there is no guarantee that these arrangements will fully protect the Company against such losses. As is common practice in the industry, the Company does not insure loss of standing timber for any cause.

There are also transition risks associated with climate change. These include changes in laws, regulations and industry standards associated with greenhouse gas emissions management, as well as non-regulatory pressure to reduce greenhouse gas emissions, and changing consumer preferences for low-carbon products. The Company monitors all regulatory changes including any climate-related regulations, to assess their impacts on operations. The Company has undertaken a qualitative Climate Scenario Analysis to better understand the effects of specific climate-related physical and transition risks on specific asset types. The Company considers adaptation and mitigation strategies to manage and reduce greenhouse gas emissions and is in the process of establishing a decarbonization roadmap. However, there is no guarantee that these efforts will be effective, and these risks may lead to increased capital expenditures or payment of carbon taxes or other events that could adversely affect operations or financial condition.

The Company is committed to sustainable forest management practices, which considers climate change, in consultation with Indigenous partners and stakeholders. However, there may be reputational risks due to the rising prominence of environment, social and governance concerns among the Company's stakeholders and Indigenous partners which could impact public opinions about the Company and its industry and could adversely affect its reputation, business, strategy, and operations. The Company continues to work closely with our Indigenous partners and stakeholders to understand their interests, identify risks and opportunities and gauge effectiveness of our management actions.

Competitive Markets

The Company's products are sold primarily in the US, Canada, Europe, and Asia. The markets for the Company's products are highly competitive on a global basis, with various major companies competing in each market with no company holding a dominant position. Competitive factors include quality of product, product mix, reliability of supply and customer service. The Company's competitive position is influenced by: the availability, quality, and cost of raw materials; energy and labour costs; free access to markets; currency exchange rates; productivity; transportation costs and customer service in relation to its competitors. Access to markets could be influenced by global trade agreements, global Government relations and their impact on free trade including the direct and indirect impacts to global demand, supply chains, the costs of production inputs and transportation due to geopolitical tensions and events such as US-China relations. These factors could potentially limit market growth opportunities or limit Canfor's ability to service its customers. An unfavourable settlement of the Softwood Lumber Agreement could also result in a material increase in duty expenditures. Additional details on the Softwood Lumber Agreement are provided in the "Softwood Lumber Agreement" section below.

Cyclicality of Product Prices

The Company's financial performance is dependent upon the selling prices of its products, which have fluctuated significantly in the past. The markets for these products are cyclical and may be characterized by (i) periods of excess product supply due to industry capacity additions, variable production rates or capacity utilization and other factors, some of which affect the Company at the present time; and (ii) periods of insufficient demand due to weak general economic conditions. The economic climate of each region where the Company's products are sold has a significant impact upon the demand, and therefore the prices for lumber as well as pulp and paper.

Environmental Issues

Canfor's operations are subject to environmental regulation by federal, provincial, state, and local authorities, including specific environmental regulations relating to air emissions and pollutants, wastewater (effluent) discharges, solid waste, landfill operations, forestry practices, site remediation and the protection of endangered species and critical habitat. The Company's European operations are subject to laws and regulations of the Swedish Government and more broadly, the European Union, with its forest operations governed by the *Swedish Forestry Act*, *Land Acquisition Act,* and the *Swedish Environmental Code*.

Canfor has incurred, and will continue to incur, capital, operating, and other expenditures to comply with these applicable environmental laws and regulations. In addition, Canfor's operations in Canada will be subject to increasing costs associated with carbon related taxes and will be actively working to mitigate through investment in technology. No assurance can be given that changes in these laws and regulations or their application will not have a material adverse effect on Canfor's business, operations, financial condition, and operational results. Similarly, no assurance can be given that capital expenditures necessary for future compliance with existing and new environmental laws and regulations could be financed from Canfor's available cash flow. In addition, Canfor may discover currently unknown environmental issues, contamination, or conditions relating to historical or present operations. This may require site or other remediation costs to maintain compliance or remedy issues or result in governmental or private claims for damage to person, property, or the environment, which could have a material adverse effect on Canfor's business, financial condition, and operational results.

Canfor has systems in place to identify, account for and appropriately address potential environmental liabilities. The Company also has governance in place including an Environmental, Health and Safety Committee of the Board, a Corporate Environmental Management Committee including Officers of the Company, and environmental professionals on staff to manage potential risks, issues, and liabilities.

Canfor has in place internal policies and procedures under which all its forestry and manufacturing operations are regularly audited for compliance with laws and accepted standards and with its environmental management system requirements. CPPI's pulp mills and Canfor's woodlands operations and wood product facilities employ environmental management systems, and the kraft pulp mills are certified under the ISO 14001 Environmental Management System Standard. Further, all (100%) of Canfor's forest tenures in Canada are third party certified to the *Sustainable Forestry Initiative* ("SFI"), or the *Forest Stewardship Council* ("FSC") sustainable forest management standards. All sourced wood in the United States operations is certified to the SFI Fiber Sourcing Standard. The Company's European operations comply with their internal environmental policies and employ environmental management systems, with raw materials certified through the *FSC in Sweden* and *Program for the Endorsement of Forest Certification* ("PEFC").

Canfor's operations and its ability to sell its products could be adversely affected if those operations did not, or were perceived by the public as failing to, comply with applicable laws and standards and following responsible environmental and sustainable forest management practices. Further discussion of environmental issues is included in the Company's Annual Information Form, incorporated by reference herein.

Fibre Cost and Availability

The Company's fibre costs are affected by several factors which could significantly impact operating results. Lumber market fluctuations and log market bidding each play a significant role in both fibre supply and costs.

In Western Canada, harvesting operations have transitioned away from Mountain Pine Beetle ("MPB") impacted timber stands (see "Forest Health" below for more commentary regarding MPB). The AAC in BC, in particular, has been reduced in many areas, but in several cases, the AAC has not yet been apportioned by the BC Government, which has exacerbated the log supply and demand imbalance. As a result of these and other factors, the existing manufacturing capacity in many areas of the BC Interior continues to exceed the available timber supply. Until this imbalance is corrected, Canfor expects to see a continuation of higher log costs in BC for the foreseeable future.

Canfor's ability to access timber could also be impacted by unsettled land and title claims by various Indigenous Nations in BC. The BC *Declaration on the Rights of Indigenous People Act* was enacted in November 2019 based on the United Nations Declaration on the Rights of Indigenous Peoples. Among other things, it outlines the BC Government's commitment to achieve free, prior, and informed consent of Indigenous Nations in connection with government approval of resource-based projects (for additional discussion of this legislation, see the "Indigenous Relations" section below). In 2021, the BC Supreme Court released its decision in *Yahey v British Columbia*, in which it ruled that the Crown had unjustifiably infringed the Treaty 8 rights of the Blueberry River First Nation ("BRFN") in permitting the cumulative impacts of industrial development to meaningfully diminish BRFN's ability to exercise its treaty rights in its traditional territory (the "Blueberry River decision"). In early 2023, the Crown reached agreements with both the BRFN, as well as the other Treaty 8 Nations in response to the *Yahey v British Columbia* legal decision. The specific impacts of these agreements on timber supply from Crown lands and on the Company's tenure and operations in the Treaty 8 area are still to be determined. As well, the Company does not know if, how or the extent to which the decision will lead to changes in BC or federal laws or policies which may affect its forestry operations. However, adverse impacts on available timber supply and operational consequences associated with these agreements are expected (see "Indigenous Relations" below for additional details).

Furthermore, in 2021, the BC Government announced its intention to defer the harvest of 2.6 million hectares of BC's old-growth forests. Initial industry-wide analysis indicated that these deferrals, if made permanent, would result in the removal of close to 1.4 million hectares from the Timber Harvesting Land Base in BC and a reduction in AAC by approximately 4.0 million cubic metres, of which 70% of this reduction is in the BC Interior. Also, in 2021, the BC Government introduced legislation affecting not only forestry operations planning activities, which could affect the cost of Canfor's operations but also its intent to redistribute tenure harvesting rights from forest tenure holders such as Canfor. The implications associated with these government policy and legislative amendments on the Company's operations are not yet fully understood but are anticipated to be significant.

In addition, the Company's ability to harvest fibre for use in its operations could be adversely impacted by natural events such as forest fires, severe weather conditions, or insect infestations. In the event that sufficient volumes of economically viable fibre are not available for an operation, it may be necessary to close that operation for a period of time, perhaps permanently. Such disruptions or closures could result in significant costs to the Company. The Company is not insured for loss of standing timber.

In the Company's US South and European operations, fibre requirements are satisfied primarily through log purchases on open markets, principally from private timber owners. The prices for these fibre purchases are subject to adverse weather and other market forces, including regional demand, which may reduce the available log supply and subsequently put upward pressure on log prices, negatively impacting the Company's results. In addition, decreased demand, primarily from pulp, paper, and pellet mills for residual products produced by the Company's operations may adversely impact the prices received for those residual products, which could negatively impact results.

Financial Risk Management and Earnings Sensitivities

Canfor is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market risk.

Canfor's internal Risk Management Committee manages risk in accordance with a Board approved Price Risk Management Controls Policy. This policy provides the framework for risk management related to commodity price, foreign exchange, interest rate and counterparty credit risk of Canfor.

(a) Credit Risk:

Credit risk is the risk of financial loss to Canfor if a counterparty to a financial instrument fails to meet its contractual obligations.

Financial instruments that are subject to credit risk include cash and cash equivalents, trade and other accounts receivable, and certain investments and advances. Contract assets are also subject to credit risk. Cash and cash equivalents include cash held through major Canadian and international financial institutions as well as temporary investments that are readily convertible into known amounts of cash within three months or less from the date of acquisition. The cash and cash equivalents balance at December 31, 2023 is $627.4 million.

Canfor utilizes credit insurance to mitigate the risk associated with some of its trade accounts receivables. As at December 31, 2023, approximately 64% of the outstanding trade accounts receivables are covered by credit insurance. Canfor's trade accounts receivable balance at December 31, 2023 is $302.2 million, before a loss allowance of $4.3 million. At December 31, 2023, approximately 94% of the trade accounts receivable balance are within Canfor's established credit terms.

(b) Liquidity risk:

Liquidity risk is the risk that Canfor will be unable to meet its financial obligations as they come due. Canfor manages liquidity risk through regular cash flow forecasting in conjunction with adequate operating loan and term debt facilities.

At December 31, 2023, Canfor had $110.6 million drawn on its operating loans and facilities and $63.5 million reserved for several standby letters of credit, leaving $1,140.5 million available and undrawn. As a result, including cash and cash equivalents of $627.4 million and CPPI's $80.0 million non-revolving term debt, which is restricted for use on the continued re-investment in its facilities, specifically Northwood's RB1, at December 31, 2023, Canfor had available liquidity of $1,847.9 million. The Company also had accounts payable and accrued liabilities of $664.5 million and term debt of $159.9 million. For details of the Company's term debt obligations and maturities refer to the "Other Commitments" section of this document.

(c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates, foreign currency, and commodity and energy prices.

(i) *Interest rate risk*:

Canfor is exposed to interest rate risk through its current financial assets, operating loan facilities and term debt that bear variable interest rates.

Canfor may use interest rate swaps to reduce its exposure to interest rate risk associated with financial obligations bearing variable interest rates. At December 31, 2023, the Company had no interest rate swaps outstanding.

Canfor is also exposed to interest rate risk in relation to the measurement of the Company's pension liabilities.

(ii) *Currency risk:*

At a consolidated level, Canfor is exposed to foreign exchange risk related to the US-dollar, as Canfor's products are sold principally in US-dollars. In addition, Canfor holds US-dollar denominated financial assets and liabilities.

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax: (i) loss (gain) of approximately $4.3 million in relation to working capital balances denominated in US-dollars at year end (including cash, accounts receivable and accounts payable); and a (ii) gain (loss) of approximately $1.7 million in relation to term debt denominated in US-dollars. These amounts do not include foreign exchange gains and losses arising from the translation of foreign operations which are recognized in 'Accumulated other comprehensive income' on the Company's consolidated balance sheet.

A portion of the currency risk associated with US-dollar denominated sales is naturally offset by US-dollar denominated expenses. A portion of the remaining exposure is sometimes reduced by foreign exchange collar contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US-dollars. At December 31, 2023, the Company had no foreign exchange collar contracts outstanding.

Although Vida primarily transacts in SEK, the Company also sells certain products in US-dollar, GBP, AUD, EUR, and NOK and holds US, SEK and AUD denominated operating loan and term debt facilities and limits its exposure to foreign exchange risk using forward foreign exchange contracts and foreign exchange options. For details of the Company's forward foreign exchange contracts at December 31, 2023, refer to the "Derivative Financial Instruments" section of this document.

(iii) *Commodity price risk:*

Canfor is exposed to commodity price risk principally related to the sale of lumber and related products, pulp and paper. From time to time, Canfor enters into futures contracts on the Chicago Mercantile Exchange for lumber and forward contracts direct with customers or on commodity exchanges for pulp. Under the Company's Price Risk Management Controls Policy, up to 15% of lumber sales and 1% of pulp sales may be sold in this way. Canfor is also exposed to commodity price risk on the sale of electricity in Canada. Prices are set by third party regulatory bodies. For details of the Company's lumber future contracts at December 31, 2023, refer to the "Derivative Financial Instruments" section of this document.

(iv) *Energy price risk:*

Canfor is exposed to energy price risk relating to purchases of natural gas and diesel oil for use in its operations.

The annual exposure is from time to time hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of eighteen months. At December 31, 2023, the Company had no energy fixed swaps or option contracts outstanding.

Earnings Sensitivities

Estimates of the sensitivity of Canfor's pre-tax results to currency fluctuations and prices for its principal products, based on 2024 forecast production, shipments, and year end foreign exchange rates, are set out in the following table:

(millions of Canadian dollars)	Impact on annual pre-tax earnings
Western SPF lumber – US$10 change per Mfbm[51,52]	$ 30
SYP lumber – US$10 change per Mfbm[51,52]	$ 26
European lumber – SEK100 change per Mfbm[51,52]	$ 15
Softwood lumber duties – 5% change[53]	$ 32
NBSK Pulp – US$10 change per tonne[54]	$ 8
Canadian dollar – 1% change per US-dollar[55]	$ 10
Canadian dollar – 1% change per SEK[55]	$ 1

[51] Based on sales of Canfor-produced products, before softwood lumber duties.
[52] Excluding impacts of exchange rate, freight, discounting, potential change in fibre costs and other deductions.
[53] Based on a 5% increase in the combined CVD and ADD deposit rate for 2024.
[54] Includes 100% of CPPI.
[55] A 1% increase in the Canadian dollar per US-dollar or SEK results in a decrease to pre-tax annual earnings. A 1% decrease in the Canadian dollar per US-dollar or SEK results in an increase to pre-tax annual earnings.

Forest Health

Timber affected by the MPB directed Canfor's harvesting activities in central and northern BC for two decades but given the economic and biological shelf-life expiry of the dead pine stands, the focus has now shifted to other coniferous species stands. To ensure that sufficient dead pine was being harvested to sustain the current allowable harvest rates and minimize impacts on the mid-term timber supply, the Chief Forester of BC established "AAC partitions" in a number of Timber Supply Areas ("TSA"). These partitions capped or restricted the harvest of non-pine species and are being revisited during upcoming timber supply reviews and AAC determinations as the viability of the merchantable dead pine stands further declines. Upon reaching the end of the shelf-life for the most severely impacted stands, the Chief Forester has commenced the reduction of the AAC for each MPB-impacted TSA. The Company anticipates this process will continue over the next several years.

Given the enormous extent and severity of the infestation, the mid-term and long-term operational and financial impacts on Canfor may be significant. In response, the Company has taken various steps to mitigate its exposure to these impacts by modifying manufacturing and harvesting operations as follows: repurposing manufacturing facilities (e.g., Houston, Prince George, Fort St. John, and Plateau sawmills) to optimize the harvest of green, non-pine leading stands that align with the available timber supply; and by permanently closing manufacturing facilities at Mackenzie, Isle Pierre, Vavenby and Chetwynd. In addition, the Company has taken steps to fully utilize as much of the residual, non-sawlog fibre it harvests by redirecting this to its whole log chipping and wood pellet plants located throughout Northern BC.

In Alberta, detection surveys continue to indicate a slow but steady rate of MPB spread in certain areas with declining populations in others. The largest active beetle populations can be found in the West Central portion of the province, particularly within the Jasper National Park boundary and along the adjacent eastern slopes of the Rocky Mountains. An accelerated harvest of susceptible pine in the Canfor Forest Management Agreement ("FMA") area since 2009, in conjunction with government control efforts, has primarily contained the spread in this area, and recent surveys indicate a meager rate of spread. MPB populations are now mainly at endemic levels in the Northwest portion of the province. Subsequently, pine mortality in areas north of the Peace River has been extensive, and harvesting objectives continue to be focused on the salvage of the remaining dead pine prior to the expiration of its economic shelf life.

Some Northern Alberta harvest rates have been temporarily increased to deal with the rising MPB infestation, and additional temporary increases could be made for the same reason in other areas of the province. The significant AAC increase approved for the quota area has maximized the opportunity to harvest infected pine stands before a significant reduction in log quality occurs. In addition, the Alberta Government has committed funds to rehabilitate dead pine stands that have not been harvested due to merchantability limitations.

Along with most other provinces in Canada, both BC and Alberta experienced record-setting wildfire seasons in 2023. With significant warming trends in the summer, resultant severe drought, and unpredictable weather patterns, wildfire activity was significant across Canfor's BC & Alberta operations between April and October 2023, with the most significant wildfire activities experienced in the Peace and west-central Alberta regions. Canfor is collaborating with government agencies and Indigenous Nations to pursue salvage harvesting operations in areas affected by the 2023 wildfire season. Long-term fibre supply impacts associated with the 2023 wildfire season will depend on the economic shelf-life of damaged timber and the extent to which salvage harvesting activities can be completed in affected areas. Canfor along with other forest companies and forest sector associations continue to collaborate with the BC and Alberta government on strategies to mitigate wildfire impacts.

Government and Other Regulations

Canfor is subject to a wide range of general and industry-specific forestry and forest practices, environmental, health and safety, building and product standards and other laws and regulations imposed by federal, provincial, and local authorities, including those governing the use, storage, handling, generation, treatment, emission, release, discharge and disposal of certain hazardous materials and wastes, the remediation of contaminated soil and ground water, the use and design values of Canfor's products, the health and safety of employees and the export or import of goods to jurisdictions where the Company sells its products. Further, certain agreements and contracts relating to the ownership or transfer of forestry tenures and licenses are subject to review by applicable regulatory bodies. If Canfor is unable to extend or renew a material license or permit required by such laws, any transfer is challenged by a regulatory body, or if there is a delay in renewing any material approval, license or permit, Canfor's business, financial condition, results of operations and cash flows could be materially adversely affected. Future events such as any changes in these laws and regulations or any change in their interpretation or enforcement, or the discovery of currently unknown conditions, may give rise to additional expenditures or liabilities.

Health & Safety

Canfor prioritizes health and safety throughout the organization and strives to ensure that its employees return home safely at the end of each shift. It does this with a comprehensive framework of inspections, training, tests of equipment and regular preventative maintenance. Despite these efforts, the nature of the Company's operations and failure to follow policies and procedures subject employees to a variety of risks, including those related to wood dust, heavy machinery, and chemicals. Apart from the impact on its people, threats to health and safety could cause interruptions to Canfor's business and have an adverse effect on the Company's reputation, operations, and financial results.

Indigenous Relations

Canfor sources the majority of its fibre from areas subject to claims of Indigenous rights or title. In November 2019, the Government of BC passed legislation *(Declaration on the Rights of Indigenous People Act)* regarding the implementation of the United Nations' *Declaration on the Rights of Indigenous Peoples Act* in BC. The legislation provides for processes for the BC Government to create a path forward that respects the human rights of Indigenous peoples while introducing better transparency and predictability to the work the BC Government and Indigenous peoples do together. This work aims to foster increased and lasting certainty on the land base while ensuring that the benefits of sustainable forest harvesting are realized equitably by those engaged in and impacted by the forestry industry.

In December 2020, the Government of Canada tabled Bill C-15, the federal government's response to implementing the United Nations' *Declaration on the Rights of Indigenous People Act*. The Bill proceeded through the legislative process and was enacted into law in June 2021.

In June 2021, the BC Government released its Draft Action Plan relating to the implementation of the *Declaration on the Rights of Indigenous People Act*, which proposes several new measures. However, these initiatives are described only at a high level. Some of the measures include: a new framework for resource revenue sharing and other fiscal mechanisms to support Indigenous peoples; and the negotiation of joint-decision-making agreements and agreements in which consent from Indigenous governing bodies will be required before the BC Government exercises a statutory decision-making power. Nonetheless, no detail is provided on the scope or content of such agreements. Thus, the impacts on the Company's timber harvesting operations of any such future agreements remain uncertain at this time.

Canadian judicial decisions have recognized the continued existence of Indigenous rights and title to lands continuously and exclusively used or occupied by Indigenous groups. In June 2014, the Supreme Court of Canada, for the first time, recognized Indigenous title for the Tsilhqot'in Nation over approximately 1,750 square kilometres of land in central BC ("William decision"). It found that BC's Forest Act provisions dealing with the disposition or harvest of Crown timber no longer applied to timber located on these lands. Still, it also confirmed provincial law can apply to Indigenous title lands.

While Indigenous title had previously been assumed to exist over specific, intensively occupied areas such as villages, the William decision marks the first time Canada's highest court has recognized Indigenous title over a particular piece of land and, in so doing, affirmed a broader territorial use-based approach to Indigenous title. The decision also further defines what Indigenous title means and the type of land uses consistent with this form of collective ownership.

Presently, Indigenous title has not been established by law in any areas overlapping Canfor's tenure areas; however, Indigenous rights continue to exist over traditional territories, and there is no assurance that Canfor's timber harvesting rights will not be affected in the future. The Government of BC delegates procedural aspects of consultation to tenure holders, including Canfor, and Canfor works to establish productive and mutually beneficial relationships with Indigenous Nations whose traditional territories overlap Canfor's operating areas. The Government of BC has also taken steps to improve certainty and access to timber resources through interim agreements with Indigenous Nations that include timber rights. Canfor holds numerous agreements with individual Indigenous Nations whereby it manages and/or purchases their timber.

On June 29, 2021, the BC Supreme Court released its decision in *Yahey v British Columbia*, in which it ruled that the Crown had unjustifiably infringed the Treaty 8 rights of the BRFN "in permitting the cumulative impacts of industrial development to meaningfully diminish BRFN's ability to exercise its treaty rights in its traditional territory." The Blueberry River decision has potentially significant implications on regulatory and operational requirements for industrial development activities in northeast BC, where Canfor has operations, and could extend to other areas in Canada where similar claims may be made.

On January 18, 2023, BRFN and the Province of BC reached an agreement that will guide them forward in a partnership approach to land, water, and resource stewardship, including forestry. The agreement includes land restoration, new areas protected from industrial development, and constraints on development activities while a long-term cumulative effects management regime is implemented. Timber harvesting in the Fort St. John Timber Supply Area will be reduced by approximately 350,000 cubic metres per year. The full impacts of the agreement on Canfor are still to be determined.

The impacts of BC's *Declaration on the Rights of Indigenous Peoples Act*, the federal government's Bill C-15, the William decision, the Blueberry River decision, and other proceedings presently before the courts in BC on the timber supply from Crown lands and Canfor's operations is unknown at this time, especially as they pertain to Canfor's current timber supply and operational activities on the traditional territory of BRFN and other Indigenous Nations. Also, Canfor does not know if, how, and to the extent these rulings or decisions will lead to changes in BC or federal laws or policies that may affect its forestry operations. However, there is the potential for adverse timber supply and operational implications associated with the outcome of these ongoing negotiations and issues. In alignment with Canfor's values and in an effort to minimize risk, as these negotiations and matters relating to Indigenous rights and title develop, Canfor will actively participate in the new regional forest landscape planning process and continue to engage with Indigenous Nations and the BC Government to seek opportunities for partnership, collaboration, and consensus-building to minimize risks to Canfor's tenures and operational activities.

Inflation

Canfor relies on logs, wood chips, chemicals, gas, electricity, transportation, and labour in its operations. Continued inflationary pressures will increase Canfor's operating costs and reduce operating margins. There is no guarantee that the effects of these cost pressures would be fully offset through price increases, productivity improvements, or cost-reduction initiatives.

Information Technology

Canfor's information technology systems serve an essential role in the operation of its business. Canfor relies on various technologies to access fibre, operate its production facilities, interact with customers, vendors, and employees, and report on its business. Interruption, failure or unsuccessful implementation and integration of Canfor's information technology systems could result in material and adverse impacts on the Company's financial condition, operations, production, sales, and reputation. It could also result in environmental and physical damage to Company operations or surrounding areas.

Canfor's information technology systems and networks could be interrupted or fail due to a variety of causes, such as natural disasters, fire, power outages, vandalism, or cyber-based attacks. Any such interruption or failure could result in operational disruptions or the misappropriation of sensitive or proprietary data that could subject Canfor to civil and criminal penalties and litigation or have a negative impact on the Company's reputation. There can be no assurance that such disruptions or misappropriations and the resulting repercussions will not negatively impact the Company's cash flows and have a material adverse effect on its business, operations, financial condition, and operational results.

Although, to date, Canfor has not experienced any material losses relating to cyber risks, there can be no assurance that the Company will not incur such losses in the future. Canfor's risk and exposure cannot be fully mitigated due to the nature of these threats. The Company continues to develop and enhance internal controls, policies, and procedures designed to protect systems, servers, computers, software, data, and networks from attack, damage, or unauthorized access remain a priority. Canfor has established a Management Cyber Risk Committee to assess and monitor risk mitigation efforts and to respond to emerging threats. As cyber threats continue to evolve, the Company may be required to expend additional resources to modify or enhance protective measures or investigate and remediate any security vulnerabilities.

Canfor is currently gathering knowledge and exploring opportunities to incorporate generative artificial intelligence and machine learning tools ("AI") into its business processes. As the use of generative AI technologies is still in its early stages, ineffective or inadequate development or deployment practices could pose challenges or unintended consequences to our business and operations. Any initiatives would be limited to Canfor's information technology environment.

Labour Agreements and Competition for Professional Skilled Labour

Any labour disruptions and costs associated with labour disruptions at the Company's mills could have a material adverse effect on the Company's production levels and results of operations. Any inability to negotiate acceptable contracts with the unions as they expire could result in a strike or work stoppage by the affected workers and increased operating costs as a result of higher wages or benefits paid to unionized workers.

A collective agreement with the United Steelworkers ("USW"), which represents the majority of the workers of the BC operations, expired on June 30, 2023. Canfor is currently in negotiations with the USW and anticipating that a new agreement will be ratified in the first half of 2024.

In 2022, Canfor negotiated its labour agreement with Unifor at its Grande Prairie lumber operation; the new agreement was ratified on January 8, 2023, and expires on October 1, 2028.

For the Company's European lumber operations, 57% of workers are represented by GS, with the current agreements effective until March 31, 2024. The Company's operations in the US South are not unionized.

CPPI negotiated its collective agreements with Unifor and Public and Private Workers of Canada ("PPWC") at its pulp and paper operations in February 2022. The new agreement will expire on April 30, 2025.

Maintenance Obligations and Facility Disruptions

Canfor's manufacturing processes are vulnerable to operational problems that could impair its ability to manufacture its products. Canfor could experience a breakdown in any of its machines or other necessary equipment, and from time to time, planned or unplanned maintenance outages that cannot be performed safely or efficiently during operations must be conducted. Such disruptions could cause a significant loss of production, which could adversely affect Canfor's business, financial condition, and operating results. The Company believes there are reasonable insurance arrangements in place to cover certain outcomes of such incidents; however, there can be no guarantees that these arrangements will fully protect the Company against such losses.

Residual Fibre Revenues

Wood chips are a residual product of Canfor's lumber manufacturing process and in northern BC, are primarily sold to CPPI. Residuals and wood waste in southern BC, Alberta, the US South, and Europe are sold primarily to third-party pulp and paper mills and pellet plants. Pricing for residuals is subject to supply and demand in the regions where our sawmill facilities are located. Increased sawmill capacities in these regions could adversely impact market conditions, including residual pricing. Conversely, increased demand from new and existing pellet facilities may help offset downward pressure on pricing.

In northern BC, these chips are the principal raw material utilized by CPPI in its pulp manufacturing operations. If market conditions cause CPPI to cease pulp operations for an extended period, Canfor would have a limited market and/or reduced value for its chip supply, which could affect its ability to run its sawmills economically. Similarly, if lumber market conditions or fibre availability were such that Canfor or other suppliers were unable to provide the current volume of chips to CPPI as a result of AAC reductions, lower sawmill production, or sawmill closures, whether temporary or permanent, CPPI's chip supply, chip cost, and production results could be materially affected.

Bark hog is another residual product of Canfor's lumber manufacturing process. Bark hog has exhibited increasing value to Canfor over the past several years. It is utilized in Canfor's bark-fueled thermal oil energy systems to dry lumber or, in the case of Canfor's cogeneration facilities, to produce heat and electricity. Surplus bark hog is sold predominantly to pulp and bio-energy customers, including CPPI, to be used in the generation of steam to manufacture power and heat.

Softwood Lumber Agreement

The Softwood Lumber Agreement expired on October 12, 2015, without being renewed or replaced. On November 25, 2016, a petition was filed by the US Lumber Coalition to the US DOC and ITC alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers, an assertion the Canadian industry and Provincial and Federal Governments strongly deny and have successfully disproven in international courts in the past. 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.

On April 24, 2017, the DOC announced its preliminary countervailing duty of 20.26% specific to Canfor, to be posted by cash deposits or bonds on the exports of softwood lumber to the US, effective April 28, 2017, to August 25, 2017. Following this period, CVD duties were not applicable on lumber shipments destined to the US from August 26, 2017 to December 27, 2017. On June 23, 2017, the DOC announced its preliminary anti-dumping duty determination of 7.72% specific to Canfor, to be posted by cash deposits or bonds on the exports of softwood lumber to the US, effective June 30, 2017.

The DOC announced final countervailing and anti-dumping duty determinations on November 2, 2017, while the ITC issued an affirmative determination of injury on December 7, 2017. As a result, Canfor was issued a final ADD rate of 7.28% (after taking account of ministerial errors) effective November 8, 2017, and was subject to countervailing duties on Canadian lumber exports destined to the US at a reduced rate of 13.24%, effective December 28, 2017. Notwithstanding the final rate established in the DOC's investigation, the final liability for assessing CVD and ADD will not be determined until an official administrative review of the respective period is complete.

In early 2020, the DOC announced the preliminary results for the first period of review (POR1) and finalized the rates on November 24, 2020. The Company's final CVD rate was determined to be 2.94% for 2017 and 2.63% for 2018, while the final ADD rate was 1.99% for the entire first period of review. The DOC's final combined duty and cash deposit rate of 4.62% applied to the Company's Canadian lumber shipments destined to the United States from

December 1, 2020, until completion of the administrative review for the second period of review on November 30, 2021.

In May 2021, the DOC announced the preliminary results for the second period of review (POR2), which was based on sales and cost data for 2019, and on November 24, 2021, finalized the rates. The Company's final CVD rate was determined to be 2.42%, while the final ADD rate was 17.12%. The DOC's final combined cash deposit rate of 19.54% applied to the Company's Canadian lumber shipments destined to the United States from December 2021 until August 2022 upon completion of the administrative review for the third period of review in August 2022.

In January 2022, the DOC announced the preliminary results for the third period of review (POR3), which was based on sales and cost data for 2020, and in August 2022, finalized the rates. The Company's final CVD rate was determined to be 0.95%, while the final ADD rate was 4.92%. The DOC's final combined cash deposit rate of 5.87% applied to the Company's Canadian lumber shipments destined for the United States from August 2022 until the completion of the administrative review for the fourth period of review in July 2023.

In January 2023, the DOC announced the preliminary results for the POR4, which is based on sales and cost data in 2021, and in July 2023, finalized the rates. The Company's final CVD and ADD rates were determined to be 1.36% and 5.25%, respectively. In July 2023, upon finalization of these POR4 rates, a recovery of $43.3 million (US$34.7 million), was recognized in the Company's consolidated financial statements to reflect the difference between the combined accrual rate between January and November 2021 of 9.63% and for December 2021 of 9.42%, and the combined DOC rate for POR4 of 6.61%.

Subsequent to year-end, in February 2024, the DOC announced the preliminary results for period of review five (POR5), which indicated that the Company's preliminary CVD and ADD rate for 2022 were 6.14% and 9.65%, respectively.

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 Canada-United States-Mexico ("CUSMA") Agreement and through the World Trade Organization, where Canadian litigation has proven successful in the past. In October 2023, a CUSMA dispute panel ruled that certain elements of the DOC's calculation of softwood lumber duties were inconsistent with US law. The panel directed the DOC to revisit key elements of its duty calculations. Most recently, in January 2024, Canada filed a notice of intent to challenge the US ITC's decision to maintain duties on Canadian softwood lumber products under Chapter 10 of the CUSMA Agreement. The results of this dispute could potentially result in adjustments to Canfor's prescribed duties and therefore its consolidated statement of income (loss).

Species at Risk

The Government of Canada, pursuant to its authority under the *Species at Risk Act* ("SARA"), has determined several wildlife species to be critically imperiled and has listed them as Endangered or Threatened. The Environment and Climate Change Canada ("ECCC") ministry is required under SARA to create and publish a Recovery Strategy for such listed species. In 2012 and 2014, Canada published a Recovery Strategy for the Boreal Caribou (Rangifer Tarandus Caribou – Boreal population) and the Southern Mountain Caribou (Rangifer Tarandus Caribou) – Southern Mountain population), each of which is a specie native to large tracts of boreal forests in northern BC and Alberta, and of the mountains of BC and the eastern slopes of the Rocky Mountains in Alberta, respectively. The Recovery Strategy identifies critical habitat and prescribes that each Province must develop and implement an action plan to recover the species and protect its critical habitat. If Canada determines that a Province is not providing adequate protection for a species, then Canada reserves the right to levy protection orders prohibiting activities deemed harmful to the species or destructive to its critical habitat.

Canada has entered into separate five-year conservation agreements with BC and Alberta per Section 11 of SARA. In BC, the two parties, along with two Treaty 8 First Nations, subsequently executed the Caribou Recovery Partnership Agreement (the "Partnership Agreement") on February 21, 2020. This 30-year Partnership Agreement encompasses several Caribou herds in the south Peace River region of BC. The Partnership Agreement has created the obligation for BC to preserve certain sections of land from all resource, commercial, and recreational use. It will ultimately result in a reduction of AAC in the three affected timber management units.

The Partnership Agreement requires that BC bring forward regulatory measures for approval. These measures will take the form of legal land use objectives that will govern how recreational, commercial, and industrial activities will be allowed to occur. The Partnership Agreement will also create a Class A Park where commercial, recreational, and industrial activities will be restricted or prohibited. The Company continues to work with governments at all levels (federal, provincial, municipal) and with its provincial and national forest associations in an effort to minimize the economic impacts that will result from these land use decisions.

Stumpage Rates

Stumpage is the fee businesses or individuals pay the Government for harvested timber from Crown land in BC. Stumpage rates in BC are determined using a transaction evidence-based timber pricing system known as the Market Pricing System ("MPS"). MPS uses market forces, such as lumber market pricing and the results and characteristics of competitively sold BC Timber Sales ("BCTS") auctions of timber, to establish the market value of timber (and ultimately stumpage rates in BC). For cutting authorities harvested under long-term tenure agreements, an adjustment is made for tenure obligation costs imposed on and incurred by licensees (such as forest management administration and silviculture) before determining final stumpage rates.

The BC Government is scheduled to make its next annual update to the MPS on July 1, 2024. Further changes to the BC Interior market-driven stumpage system and resulting stumpage rates could have a material impact on Canfor's business. The Alberta Government will be reviewing their provincial stumpage rates (timber dues); however, the Company is not aware of any planned material changes at this point.

Transportation Services

Canfor relies primarily on third parties for the transportation of its products, as well as the delivery of raw materials, a significant portion of which are transported by railroads, trucks, and ships. If any of Canfor's third-party transportation providers were to fail to deliver the raw materials or products or distribute them in a timely manner, Canfor may be unable to sell those products at full value, or at all, or unable to manufacture its products in response to customer demand, which could have a material adverse effect on Canfor's financial condition and operating results. In addition, if any of these third parties were to cease operations, suffer labour-related disruptions, or cease doing business with Canfor, the Company's operations or cost structure may be adversely impacted. Transportation services may also be affected by seasonal factors, which could impact the timely delivery of raw materials and product distribution to customers and adversely impact Canfor's financial condition and operating results. As a result of increased government regulation on truck drivers' work hours and rail capacity constraints, access to adequate transportation capacity has, at times, been strained. It could affect Canfor's ability to move its log, lumber, and wood chips at competitive market prices.

OUTSTANDING SHARE DATA

At March 5, 2024, there were 118,931,779 common shares issued and outstanding.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related consolidated financial statements was properly recorded, processed, summarized, and reported to the Board of Directors and the Audit Committee. The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2023, and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR") and confirm that there were no changes in the Company's ICFR during the year ended December 31, 2023, that materially affected, or would be reasonably likely to materially affect, such controls.

Based upon their evaluation of these controls for the year ended December 31, 2023, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2023 Annual Information Form, is available at www.sedarplus.com or at www.canfor.com.