2022

QUARTER ONE

INTERIM REPORT

FOR THE THREE MONTHS ENDED MARCH 31, 2022

CANFOR CORPORATION

To Our Shareholders

Canfor Corporation ("The Company" or "Canfor") reported its first quarter of 2022 results:

Overview

- Q1 2022 reported operating income of $742 million driven by strong lumber segment results with near record-high North American lumber pricing and strong earnings for the Company's European lumber operations
- Shareholder net income of $534 million, or $4.29 per share
- Completed acquisition of Millar Western Forest Products Ltd.'s ("Millar Western") solid wood operations and associated tenure for $440 million, including net working capital
- Announced $165 million (US$130 million) investment in the US South to significantly upgrade and expand Urbana's sawmill and planer facility
- Announced the implementation of a comprehensive plan to achieve net-zero carbon emissions by 2050

Financial Results

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

(millions of Canadian dollars, except per share amounts)	Q1 2022	Q4 2021	Q1 2021
Sales	**$ 2,213.3**	$ 1,571.3	$ 1,941.8
Reported operating income before amortization and impairments	**$ 830.7**	$ 321.7	$ 696.7
Reported operating income (loss)	**$ 741.9**	$ (66.8)	$ 602.6
Adjusted operating income before amortization and impairments[1]	**$ 829.6**	$ 311.3	$ 694.5
Adjusted operating income[1]	**$ 740.8**	$ 216.3	$ 600.4
Net income (loss)[2]	**$ 534.0**	$ (23.1)	$ 427.8
Net income (loss) per share, basic and diluted[2]	**$ 4.29**	$ (0.19)	$ 3.42
Adjusted net income[1, 2]	**$ 529.0**	$ 154.6	$ 434.2
Adjusted net income per share, basic and diluted[1, 2]	**$ 4.25**	$ 1.24	$ 3.47

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

For the first quarter of 2022, the Company reported operating income of $741.9 million compared to an operating loss of $66.8 million in the fourth quarter of 2021. After taking account of adjusting items, largely comprised of asset impairments in the previous quarter, the Company's adjusted operating income for the current quarter of $740.8 million was $524.5 million higher than adjusted operating income of $216.3 million reported for the fourth quarter of 2021, primarily reflecting a significant increase in lumber segment earnings, and to a much lesser extent, improved pulp and paper segment results.

In the lumber segment, adjusted earnings increased $509.7 million quarter-over-quarter principally reflecting an extensive uplift in Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") US-dollar benchmark pricing in the current period, with the average North American Random Lengths Western SPF 2x4 #2&Btr price up US$563 per Mfbm, or 79%, and the average SYP East 2x6 #2 up US$564 per Mfbm, or 105%. The near record-high benchmark lumber pricing in the current quarter was combined with higher production and shipment volumes for the Company's North American lumber operations, albeit moderated in part by the ongoing global supply chain challenges, especially in Western Canada. Current quarter results also reflected strong earnings for the Company's European operations principally attributable to moderately higher European lumber unit sales realizations and, to a lesser extent, lower unit manufacturing costs, offset in part by a 5% stronger Canadian dollar (versus the Swedish Krona ("SEK")).

North American market conditions remained very strong through much of the first quarter of 2022, primarily led by continued strength in new home construction activity. Significant demand against a backdrop of tight supply, largely stemming from supply chain disruptions, resulted in the aforementioned increase in North American benchmark lumber prices in the current quarter. Towards the end of the current quarter, however, elevated material costs, tied to the raised benchmark lumber prices, combined with growing concerns around housing affordability and higher interest rates, dampened consumer spending in the "do-it-yourself" sector.

Offshore lumber demand in Asia weakened somewhat in the first quarter of 2022, particularly in China. In addition, lumber inventories in the region were higher than seasonal norms due to delays in the prior quarter on inbound shipments.

After a modest decline in the prior quarter, Western Europe and Scandinavian lumber demand strengthened throughout the first quarter of 2022 supported by increased activity in the repair and remodeling sector and relatively stable residential construction activity.

Results in the pulp and paper segment principally reflected supply-driven increases in Northern Bleached Softwood Kraft ("NBSK") pulp US-dollar prices that were significantly moderated by the ongoing impacts of global supply chain challenges and transportation disruptions in British Columbia ("BC") on Canfor Pulp Products Inc.'s ("CPPI") operations and shipments. As a result, CPPI's NBSK pulp and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") unit sales realizations were broadly in line with the previous quarter. In addition, current quarter results included the impact of capital-related downtime at CPPI's Northwood NBSK pulp mill ("Northwood") related to the rebuild of the lower furnace of recovery boiler number one ("RB1"). The lower furnace replacement was completed mid-April, with a total capital cost of approximately $30.0 million and total reduction in NBSK pulp production of 90,000 tonnes (10,000 tonnes in the fourth quarter of 2021, 70,000 tonnes in the current quarter and a further 10,000 tonnes in April 2022).

Looking ahead, global lumber market fundamentals are anticipated to remain strong through the second quarter of 2022. New home construction in North America is projected to show continued strength in the near term, supported by lean home inventory, an aging housing stock and high levels of homeowner equity. As the year progresses, however, new home construction activity is estimated to face increased headwinds due to high inflation, rising interest rates and decreasing housing affordability. Demand in the repair and remodeling sector is anticipated to soften somewhat, principally reflecting inflationary cost pressures and competing uses for discretionary spending.

Offshore lumber demand in Asia is forecast to experience some downward pressure in the second quarter of 2022 before improving through the balance of the year as inventories in the region move back into balance. The outlook for European markets remains positive moving into the second quarter but is anticipated to face increasing challenges associated with rising inflation and Russia's recent invasion of the Ukraine which has disrupted regional supply networks.

Results in the second quarter will reflect reduced operating schedules across the Company's Western Canadian lumber operations as a result of the cumulative effects of the supply chain crisis that has been ongoing for several months. The Company will continue to closely monitor the supply chain situation and will adjust future lumber operating schedules, as appropriate, through the balance of the second quarter and into latter half of 2022.

In addition, the permanent reduction of 150 million board feet of production capacity at the Company's Plateau sawmill in BC is anticipated to take effect at the end of the second quarter of 2022. The resizing will align the facility with the reduction in available, sustainable timber supply in the region following the Mountain Pine Beetle infestation and other constraints on the timber harvesting land base.

For the pulp and paper segment, results in the second quarter of 2022 are anticipated to reflect in part, the near record-high US-dollar pulp list pricing seen in the first quarter of 2022. However, the intermittent and limited rail service experienced in BC in the first quarter of 2022 is projected to continue well into the second quarter, putting sustained pressure on CPPI's operations and shipments through the coming months, including, as previously announced, the extension of a transportation-related curtailment at CPPI's Taylor BCTMP mill ("Taylor") by at least a further six-weeks, with a projected 25,000 tonnes of reduced BCTMP production. CPPI will continue to closely monitor the ongoing supply chain challenges and will adjust future operating plans accordingly, through the balance of the second quarter and 2022.

In addition, CPPI's results in the second quarter of 2022 will reflect the impact of the RB1 capital-related outage at Northwood into mid-April (approximately 10,000 tonnes), as well as a scheduled maintenance outage at Northwood in the latter part of the second quarter, with a projected 25,000 tonnes of reduced NBSK pulp production. With the RB1 rebuild now complete, a key focus of CPPI's kraft pulp mills for the balance of 2022 will be on improving operational reliability and closely managing manufacturing and fibre costs.

The Honourable John R. Baird **Chairman**	**Don B. Kayne** **President and Chief Executive Officer**

Non-IFRS Financial Measures

Throughout this press release, reference is made to certain non-IFRS financial measures which are used to evaluate the Company's performance but are not generally accepted under IFRS and may not be directly comparable with similarly titled measures used by other companies. The following table provides a reconciliation of these non-IFRS financial measures to figures reported in the Company's condensed consolidated interim financial statements:

(millions of Canadian dollars)		**Q1 2022**		Q4 2021		Q1 2021
Reported operating income (loss)	**$**	**741.9**	$	(66.8)	$	602.6
Asset impairments	**$**	**-**	$	293.5	$	-
Inventory write-down (recovery), net	**$**	**(1.1)**	$	1.1	$	(2.2)
Restructuring, mill closure and other items, net	**$**	**-**	$	(11.5)	$	-
Adjusted operating income	**$**	**740.8**	$	216.3	$	600.4
Amortization	**$**	**88.8**	$	95.0	$	94.1
Adjusted operating income before amortization and impairments	**$**	**829.6**	$	311.3	$	694.5

After-tax impact, net of non-controlling interests (millions of Canadian dollars)		**Q1 2022**		Q4 2021		Q1 2021
Net income (loss)	**$**	**534.0**	$	(23.1)	$	427.8
Foreign exchange (gain) loss on term debt	**$**	**(3.0)**	$	0.2	$	(2.6)
(Gain) loss on derivative financial instruments	**$**	**(2.0)**	$	3.0	$	9.0
Asset impairments	**$**	**-**	$	182.9	$	-
Restructuring, mill closure and other items, net	**$**	**-**	$	(8.4)	$	-
Adjusted net income[3]	**$**	**529.0**	$	154.6	$	434.2

[3] Attributable to equity shareholders of the Company.

Canfor Corporation
First Quarter 2022
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the quarter ended March 31, 2022 relative to the quarters ended December 31, 2021 and March 31, 2021, and the financial position of the Company at March 31, 2022. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended March 31, 2022 and 2021, as well as the 2021 annual MD&A and the 2021 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2021 (available at www.canfor.com). The financial information contained in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

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

Also in this interim 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 interim MD&A for further details.

Factors that could impact future operations are also discussed. These factors may be influenced by both 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 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 May 2, 2022.

Forward Looking Statements

Certain statements in this MD&A constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

FIRST QUARTER 2022 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except ratios)	Q1 2022	Q4 2021	Q1 2021
Operating income (loss) by segment:			
Lumber	**$ 783.0**	$ 86.3	$ 606.7
Pulp and Paper	**$ (26.0)**	$ (137.2)	$ 4.9
Unallocated and Other	**$ (15.1)**	$ (15.9)	$ (9.0)
Total operating income (loss)	**$ 741.9**	$ (66.8)	$ 602.6
Add: Amortization[1]	**$ 88.8**	$ 95.0	$ 94.1
Add: Asset impairments	**$ -**	$ 293.5	$ -
Total operating income before amortization and impairments	**$ 830.7**	$ 321.7	$ 696.7
Add (deduct):			
Working capital movements	**$ (287.7)**	$ (147.9)	$ (354.7)
Defined benefit plan contributions, net	**$ (3.8)**	$ (2.3)	$ (4.1)
Income taxes paid, net	**$ (208.0)**	$ (48.1)	$ (60.1)
Adjustment to accrued duties[2]	**$ (50.7)**	$ (27.5)	$ 10.4
Other operating cash flows, net[3]	**$ 23.5**	$ (0.1)	$ 22.2
Cash from operating activities	**$ 304.0**	$ 95.8	$ 310.4
Add (deduct):			
Capital additions, net	**$ (81.3)**	$ (175.3)	$ (65.8)
Finance expenses paid	**$ (3.4)**	$ (7.7)	$ (6.8)
Repayments of term debt, net	**$ (0.1)**	$ (7.9)	$ (229.1)
Share purchases	**$ (5.7)**	$ (0.3)	$ -
Acquisition of Millar Western	**$ (418.1)**	$ -	$ -
Phased acquisition of Elliott	**$ -**	$ -	$ (38.2)
Foreign exchange loss on cash and cash equivalents	**$ (24.6)**	$ (10.8)	$ (6.7)
Other, net[3]	**$ (21.1)**	$ (2.4)	$ (14.1)
Change in cash / operating loans	**$ (250.3)**	$ (108.6)	$ (50.3)
ROIC – Consolidated period-to-date[4]	**19.8%**	(1.5)%	17.7%
Average exchange rate (US$ per C$1.00)[5]	**$ 0.790**	$ 0.794	$ 0.790
Average exchange rate (SEK per C$1.00)[5]	**7.367**	7.026	6.628

[1] Amortization includes amortization of certain capitalized major maintenance costs.
[2] Adjusted to true-up preliminary anti-dumping duty ("ADD") deposits to the Company's current accrual rates.
[3] Further information on cash flows may be found in the Company's unaudited interim consolidated financial statements.
[4] Consolidated ROIC is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[5] Source – Bank of Canada (monthly average rate for the period).

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

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	Q1 2022	Q4 2021	Q1 2021
Shareholder net income (loss), as reported	**$ 534.0**	$ (23.1)	$ 427.8
Foreign exchange (gain) loss on term debt	**$ (3.0)**	$ 0.2	$ (2.6)
(Gain) loss on derivative financial instruments	**$ (2.0)**	$ 3.0	$ 9.0
Asset impairments	**$ -**	$ 182.9	$ -
Restructuring, mill closure and other items, net	**$ -**	$ (8.4)	$ -
Net impact of above items	**$ (5.0)**	$ 177.7	$ 6.4
Adjusted shareholder net income[6]	**$ 529.0**	$ 154.6	$ 434.2
Shareholder net income (loss) per share (EPS), as reported	**$ 4.29**	$ (0.19)	$ 3.42
Net impact of above items per share	**$ (0.04)**	$ 1.43	$ 0.05
Adjusted shareholder net income per share[6]	**$ 4.25**	$ 1.24	$ 3.47

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

For the first quarter of 2022, the Company reported operating income of $741.9 million compared to an operating loss of $66.8 million in the fourth quarter of 2021. After taking account of adjusting items, largely comprised of asset impairments in the previous quarter, the Company's adjusted operating income for the current quarter of $740.8 million was $524.5 million higher than adjusted operating income of $216.3 million reported for the fourth quarter of 2021, primarily reflecting a significant increase in lumber segment earnings, and to a much lesser extent, improved pulp and paper segment results.

In the lumber segment, adjusted earnings increased $509.7 million quarter-over-quarter principally reflecting an extensive uplift in Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") US-dollar benchmark pricing in the current period, with the average North American Random Lengths Western SPF 2x4 #2&Btr price up US$563 per Mfbm, or 79%, and the average SYP East 2x6 #2 up US$564 per Mfbm, or 105%. The near record-high benchmark lumber pricing in the current quarter was combined with higher production and shipment volumes for the Company's North American lumber operations, albeit moderated in part by the ongoing global supply chain challenges, especially in Western Canada. Current quarter results also reflected strong earnings for the Company's European operations principally attributable to moderately higher European lumber unit sales realizations and, to a lesser extent, lower unit manufacturing costs, offset in part by a 5% stronger Canadian dollar (versus the Swedish Krona ("SEK")).

Results in the pulp and paper segment principally reflected supply-driven increases in Northern Bleached Softwood Kraft ("NBSK") pulp US-dollar prices that were significantly moderated by the ongoing impacts of global supply chain challenges and transportation disruptions in British Columbia ("BC") on Canfor Pulp Products Inc.'s ("CPPI") operations and shipments. As a result, CPPI's NBSK pulp and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") unit sales realizations were broadly in line with the previous quarter. In addition, current quarter results included the impact of capital-related downtime at CPPI's Northwood NBSK pulp mill ("Northwood") related to the rebuild of the lower furnace of recovery boiler number one ("RB1"). The lower furnace replacement was completed mid-April, with a total capital cost of approximately $30.0 million, with no insurance proceeds contemplated at this time, and a total reduction in NBSK pulp production of 90,000 tonnes (10,000 tonnes in the fourth quarter of 2021, 70,000 tonnes in the current quarter and a further 10,000 tonnes in April 2022).

Compared to the first quarter of 2021, operating income was up $139.3 million from operating income of $602.6 million in the comparative period, consisting of a $176.3 million increase in lumber segment earnings and a $30.9 million decrease in pulp and paper segment results.

Lumber segment results largely reflected substantially higher earnings for the Company's operations in the US South coupled with strong results in Europe. Results in the US South primarily reflected significantly higher SYP pricing, offset in part by increased unit manufacturing costs, while in Europe, notably higher lumber unit sales realizations were combined with moderately higher production and shipments and a reduction in conversion costs. In Western Canada, results were broadly in line with the comparative period as a rise in Western SPF benchmark pricing was offset by significantly lower production and shipments, and notably higher log and conversion costs.

For the pulp and paper segment, decreased operating results principally reflected substantially higher average NBSK sales unit pulp realizations in the current period, which were more than offset by reduced pulp shipments, a decline in pulp production, as well as higher pulp unit manufacturing costs quarter-over-quarter.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)	Q1 2022	Q4 2021	Q1 2021
Sales[7]	**$ 1,993.7**	$ 1,322.0	$ 1,679.5
Operating income before amortization and impairment[7]	**$ 851.3**	$ 356.8	$ 679.7
Operating income[7]	**$ 783.0**	$ 86.3	$ 606.7
Asset impairment	**$ -**	$ 198.5	$ -
Restructuring, mill closure and other items, net[8]	**$ -**	$ (11.5)	$ -
Adjusted operating income[9]	**$ 783.0**	$ 273.3	$ 606.7
Average WSPF 2x4 #2&Btr lumber price in US$[10]	**$ 1,274**	$ 711	$ 972
Average WSPF 2x4 #2&Btr lumber price in Cdn$[10,12]	**$ 1,613**	$ 895	$ 1,231
Average SYP 2x4 #2 lumber price in US$[11]	**$ 1,372**	$ 862	$ 1,160
Average SYP 2x4 #2 lumber price in Cdn$[11,12]	**$ 1,736**	$ 1,085	$ 1,469
Average SYP 2x6 #2 lumber price in US$[11]	**$ 1,102**	$ 538	$ 904
Average SYP 2x6 #2 lumber price in Cdn$[11,12]	**$ 1,395**	$ 678	$ 1,144
US housing starts (thousand units SAAR)[13]	**1,753**	1,670	1,599
Production – WSPF lumber (MMfbm)[14]	**652**	529	713
Production – SYP lumber (MMfbm)[14]	**420**	379	414
Production – European lumber (MMfbm)[14]	**376**	383	347
Shipments – WSPF lumber (MMfbm)[15]	**585**	517	664
Shipments – SYP lumber (MMfbm)[15]	**399**	377	390
Shipments – European lumber (MMfbm)[15]	**423**	426	395

[7] Q1 2022 includes sales of $457.1 million, operating income of $179.2 million, and operating income before amortization of $196.5 million from European operations (Q4 2021 – sales of $434.7 million, operating income of $137.1 million, and operating income before amortization of $155.3 million; Q1 2021 – sales of $384.5 million, operating income of $88.5 million, and operating income before amortization of $108.6 million). Operating income from the European operations in Q1 2022 includes $9.8 million in incremental amortization and other expenses driven by the purchase price allocation at acquisition date (Q4 2021 - $10.2 million; Q1 2021 - $10.8 million).
[8] Adjusted for restructuring, mill closure and other items, net, related to closures and permanent or indefinite curtailments and dispositions of non-operating assets.
[9] Adjusted operating income is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[10] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[11] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[12] Average lumber prices in Cdn$ 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.
[13] Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").
[14] Excluding production of trim blocks.
[15] 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 market conditions remained very strong through much of the first quarter of 2022, primarily led by continued strength in new home construction activity. Significant demand against a backdrop of tight supply, largely stemming from supply chain disruptions, resulted in the increase in North American benchmark lumber prices in the current quarter. Towards the end of the current quarter, however, elevated material costs, tied to the raised benchmark lumber prices, combined with growing concerns around housing affordability and higher interest rates, dampened consumer spending in the "do-it-yourself" sector.

In January, US housing starts declined moderately from the highs established in late 2021 but rose through February and reached a near sixteen year high of 1,793,000 units in March, supported by low housing inventory, favourable demographics and reduced absenteeism as the impacts of the coronavirus ("COVID-19") eased through the period. For the current quarter overall, US housing starts averaged 1,753,000 units on a seasonally adjusted basis, up 5% from the previous quarter, reflecting a 3% and 9% increase in single and multi-family starts, respectively. In Canada, housing starts were down 7% from the previous quarter, averaging 243,000 units on a seasonally adjusted basis in the first quarter of 2022. Despite remaining well above pre-pandemic levels due to solid demand, strong pricing and low existing inventory, the decline in Canadian housing starts primarily reflected a slowdown in new home construction activity in several major cities.

Offshore lumber demand in Asia weakened somewhat in the first quarter of 2022, particularly in China. In addition, lumber inventories in the region were higher than seasonal norms due to delays in the prior quarter on inbound shipments.

After a modest decline in the prior quarter, Western Europe and Scandinavian lumber demand strengthened throughout the first quarter of 2022 supported by increased activity in the repair and remodeling sector and relatively stable residential construction activity.

Sales

Sales revenues for the lumber segment for the first quarter of 2022 were $1,993.7 million, up $671.7 million compared to the previous quarter and up $314.2 million from the first quarter of 2021. The 51% increase in sales revenue over the prior quarter largely reflected exceptionally higher Western SPF and SYP US-dollar pricing combined with a 10% increase in North American shipments, 3% of which was attributable to the acquisition of Millar Western Forest Products Ltd.'s ("Millar Western") solid wood operations at the beginning of March 2022. Compared to the first quarter of 2021, sales revenues increased by 19%, primarily due to strong global lumber benchmark prices quarter-over-quarter, coupled with higher shipments in Europe and the US South, offset in part by a 12% decrease in Western SPF shipment volumes despite the incremental benefit of Millar Western in the current quarter.

Total lumber shipments, at 1.41 billion board feet, were 7% higher than the previous quarter principally reflecting an increase in North American lumber shipments, as European lumber shipments were largely unchanged quarter-over-quarter. The uplift in North American shipments was primarily driven by increased production in both Western Canada and the US South, moderated in part by persistent transportation congestion and rail service issues in those regions in the current quarter.

Compared to the first quarter of 2021, total lumber shipments declined 3%, as moderately higher shipments in Europe, and to a lesser extent, the US South, were more than offset by significantly lower shipments in Western Canada. The latter primarily a result of reduced production principally tied to the aforementioned transportation challenges.

The average North American Random Lengths Western SPF 2x4 #2&Btr price climbed steadily throughout much of the current quarter, reaching a high of US$1,400 per Mfbm early March and ending the quarter at US$1,200 per Mfbm. For the quarter overall, the North American Random Lengths Western SPF 2x4 #2&Btr price averaged US$1,274 per Mfbm, up US$563 per Mfbm, or 79%, from the previous quarter. The Company's Western SPF unit sales realizations reflected the substantial increase in US-dollar benchmark pricing, moderated in part by lower offshore unit sales realizations, and to a lesser extent, an unfavourable timing lag in shipments (versus orders) and higher duties.

The positive pricing momentum for the North American SYP East 2x4 #2 price experienced in the previous quarter continued into January, reaching a new all-time high of US$1,515 per Mfbm mid-month and remaining above US$1,300 per Mfbm for eight consecutive weeks before declining in March, ending the period at US$985 per Mfbm. As a result, the SYP East 2x4 #2 price averaged US$1,372 per Mfbm for the current quarter, up US$510 per Mfbm, or 59%, compared to the previous quarter. Wider-width dimension products saw more pronounced increases over the same period, including the SYP East 2x6 #2 which averaged US$1,102 per Mfbm in the current quarter, up US$564 per Mfbm, or 105%, and contributed to the considerable increase in the Company's SYP unit sales realizations quarter-over-quarter.

The Company's European lumber unit sales realizations were moderately higher than the previous quarter as the significant increase in US-dollar North American benchmark pricing and a favourable geographical sales mix, were offset in part a slight decline in European pricing (as the traditional quarterly timing lag in European pricing reflected the moderation in European lumber market demand from the prior quarter), as well as a 5% stronger Canadian dollar (versus the SEK).

Compared to the first quarter of 2021, the Company's lumber unit sales realizations were significantly higher in all three operating regions, principally reflecting the material uplift in global lumber market pricing over the comparative period. The average North American Random Lengths Western SPF 2x4 #2&Btr price was up US$302 per Mfbm, or 31%, while the SYP East 2x4 #2 price increased US$212 per Mfbm, or 18%, with a further uplift seen in certain wider-width dimension products, including the SYP East 2x6 #2 which improved US$198 per Mfbm, or 22%, quarter-over-quarter. European lumber unit sales realizations were notably higher than the comparative period due to significantly improved European demand and pricing, despite an 11% strengthening of the Canadian dollar (versus the SEK) in the current quarter.

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 driven by seasonally higher Western SPF log sales revenue related to pulp logs and, to a lesser extent, residual fibre revenues. Compared to the first quarter of 2021, other revenues also experienced a substantial improvement, principally reflecting higher packaging sales in Europe, as well as a slight increase in log sales revenue in Europe and the US South.

Operations

Total lumber production, at 1.45 billion board feet, was up 12% compared to the prior quarter, largely reflecting significantly higher production at the Company's North American lumber operations. In Western Canada production was up 23% quarter-over-quarter, as a modest improvement in operating schedules in the current period combined with incremental production attributable to the Miller Western acquisition (approximately 30 million board feet) was moderated in part by supply chain-related production disruptions later in the current quarter, and to a lesser extent, productivity impacts associated with mechanical issues, cold weather and COVID-19 absenteeism (approximately 130 million board feet including the impact of supply chain-related disruptions). In the prior quarter, production at the Company's BC mills was decreased by approximately 220 million board feet driven by reduced operating schedules as a result of fibre constraints and supply infrastructure challenges. In the US South, higher production reflected fewer statutory holidays in the current quarter and increased log supply following shortages and reduced trucking availability in the previous quarter. The Company's European lumber production was broadly comparable quarter-over-quarter.

Compared to the first quarter of 2021, total lumber production was down 2%, as moderately higher production at the Company's European operations was more than offset by lower Western SPF production. SYP production was broadly in line with the comparative period. European lumber production increased from the same period in the prior year primarily as a result of unseasonably warm weather in the current period, while decreased Western SPF production reflected transportation-related pressures on operating schedules in the latter part of the current quarter, partially offset by one month of Millar Western production.

Lumber unit manufacturing and product costs were slightly down from the previous quarter, for the most part reflecting moderately lower log costs in BC, offset in part by somewhat higher log costs in the US South. The decrease in BC log costs was largely driven by lower North American benchmark lumber prices in the previous quarter which translated into reduced market-based stumpage rates in the current period. In the US South, hauling capacity constraints and increased log demand resulted in log cost pressures in the current period. Log costs in Europe were broadly in line with the prior period. Conversion costs were comparable quarter-over-quarter reflecting the per unit benefit of increased production in the North American lumber operations, partially offset by higher labour, supplies and maintenance spend in those regions, combined with reduced maintenance spend (timing-related) in Europe.

Compared to the first quarter of 2021, lumber unit manufacturing costs increased significantly due to the combined impact of higher log and conversion costs in the Company's North America lumber operations, mitigated by moderately lower conversion costs in Europe tied to improved production in the current quarter. Increased Western SPF log costs were primarily driven by higher BC market-based stumpage rates, whereas the uplift in log costs in the US South reflected increased log demand in that region. Higher conversion costs in Western Canada largely reflected the impact of reduced production and higher energy costs combined with inflationary cost pressures in the current period. In the US South, increased conversion costs were primarily due to higher maintenance spending (timing-related).

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[16]

(millions of Canadian dollars, unless otherwise noted)		Q1 2022		Q4 2021		Q1 2021
Sales	**$**	**219.6**	$	249.3	$	262.3
Operating income (loss) before amortization and impairment[17]	**$**	**(5.9)**	$	(19.6)	$	25.7
Operating income (loss)	**$**	**(26.0)**	$	(137.2)	$	4.9
Asset impairment	**$**	**-**	$	95.0	$	-
Inventory write-down expense (recovery)	**$**	**(1.1)**	$	1.1	$	(2.2)
Adjusted operating income (loss)[18]	**$**	**(27.1)**	$	(41.1)	$	2.7
Average NBSK pulp price delivered to China – US$[19]	**$**	**899**	$	723	$	883
Average NBSK pulp price delivered to China – Cdn$[19]	**$**	**1,139**	$	911	$	1,118
Production – pulp (000 mt)		**176**		190		292
Production – paper (000 mt)		**34**		31		30
Shipments – pulp (000 mt)		**176**		216		265
Shipments – paper (000 mt)		**31**		27		37

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

Markets

Global pulp markets tightened significantly during the first quarter of 2022, principally driven by the ongoing global transportation challenges and combined with unplanned pulp supply disruptions, largely due to labour disruptions in Europe and logistic constraints in BC. As a result, NBSK US-dollar list prices on orders from China saw a sharp increase during the period, reaching near-record highs of US$985 per tonne in March, to average US$899 per tonne for the current quarter, up US$176 per tonne, or 24%, from the previous quarter and up US$16 per tonne, or 2%, compared to the first quarter of 2021. Prices to North America also experienced strengthening, although not to the same degree as China, up US$55 per tonne, or 4%, from the prior quarter and up US$225 per tonne, or 17%, compared to the same period in the prior year, to US$1,527 per tonne (before discounts). Reflecting the lag between orders and shipments, as well as CPPI's reduced production, it is anticipated that the majority of these price gains will be realized in the second and third quarters of 2022.

Despite the uplift in global US-dollar pulp pricing, global softwood pulp producer inventories at the end of February 2022 were at 45 days[20] supply, up two days from December 2021, well above the balanced range and largely reflecting the aforementioned supply chain constraints. Market conditions are generally considered balanced when inventories are in the 28-36 days of supply range.

Global kraft paper market demand and pricing continued to strengthen through the first quarter of 2022, led primarily by the home building segment, and combined with tight global kraft paper supply, particularly in offshore markets.

Sales

Pulp shipments for the first quarter of 2022 were 176,000 tonnes, down 40,000 tonnes, or 19%, from the previous quarter and down 89,000 tonnes, or 34%, from the first quarter of 2021. Decreased shipments in the current quarter reflected a 7% decrease in pulp production combined with the sustained impacts of a constrained global logistics network and challenging transportation environment in BC, as well as a notable drawdown of inventory in the prior quarter. Compared to the first quarter of 2021, the decrease in pulp shipments primarily reflected the 40% reduction in pulp production, offset in part by the timing of vessels quarter-over-quarter.

[20] World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council ("PPPC").

Notwithstanding the improvement in global pulp list prices, CPPI's NBSK pulp and BCTMP unit sales realizations were broadly in line with the previous quarter, primarily due to a significant delay in shipments (versus orders) driven by both the ongoing global container shortages and transportation challenges in BC.

Compared to the first quarter of 2021, average NBSK pulp unit sales realizations saw a substantial increase, principally reflecting higher US-dollar pulp list pricing combined with a favourable regional sales mix. Average BCTMP unit sales realizations were moderately lower than the same period in the prior year, as comparable BCTMP demand and US-dollar pricing was overshadowed by a notable lag in shipments (versus orders) tied to the aforementioned transportation delays.

Energy revenues were broadly in line with the prior quarter and moderately lower than the first quarter of 2021. The latter was principally driven by a reduction in turbine operating days largely due to the continuation of Northwood's RB1 lower furnace replacement throughout the current period.

Paper shipments in the first quarter of 2022 were 31,000 tonnes, up 4,000 tonnes from the previous quarter, and down 6,000 tonnes from the first quarter of 2021, principally reflecting the timing of shipments around quarter-end compared to both comparative periods.

Paper unit sales realizations in the first quarter of 2022 were modestly higher than the previous quarter, largely attributable to the strengthening of global US-dollar paper pricing in the current period. Compared to the first quarter of 2021, paper unit sales realizations experienced a substantial increase, primarily reflecting a notable improvement in US-dollar prices, especially to North American markets, quarter-over-quarter.

<u>Operations</u>

Pulp production was 176,000 tonnes for the first quarter of 2022, down 14,000 tonnes, or 7%, from the previous quarter, largely reflecting the quarter-over-quarter impact of downtime.

In the current quarter, pulp production was principally impacted by the extended outage on one production line at Northwood to enable the replacement of RB1's lower furnace (approximately 70,000 tonnes), as well as downtime at CPPI's Taylor BCTMP mill ("Taylor") (approximately 30,000 tonnes) driven by significant transportation shortages in BC that resulted in finished pulp inventories at Taylor reaching capacity. In addition, current quarter pulp production reflected various smaller operational upsets through the period (approximately 30,000 tonnes).

In the fourth quarter of 2021, operational performance at all of CPPI's pulp mills was challenged by unprecedented flooding and harsh winter conditions in BC that resulted in transportation-related downtime at Northwood and Taylor. In addition, production at Northwood was reduced by the commencement in December of the replacement of RB1's lower furnace. Combined, these factors reduced NBSK pulp production by approximately 100,000 tonnes and BCTMP production by 20,000 tonnes in the fourth quarter of 2021.

Compared to the first quarter of 2021, pulp production was down 116,000 tonnes, or 40%, primarily reflecting decreased operating days in the current period associated with the rebuild of Northwood's RB1 in the current period, as well as the transportation-related curtailment at Taylor, offset in part by the completion of Northwood's recovery boiler number five ("RB5") capital-related downtime (approximately 10,000 tonnes) in the comparative period.

Pulp unit manufacturing costs were comparable to the prior quarter, principally reflecting lower fibre costs offset by higher energy and chemical costs in the current quarter. Fibre costs were down compared to the previous period, primarily driven by an increased proportion of lower-cost sawmill residual chips. Compared to the first quarter of 2021, pulp unit manufacturing costs were significantly higher, mostly attributable to lower production combined with market-related increases in fibre costs in the current quarter.

Paper production for the first quarter of 2022 was 34,000 tonnes, up 3,000 tonnes from the previous quarter, and up 4,000 tonnes from the first quarter of 2021, largely reflecting improved productivity in the current period following several operational challenges at the Prince George pulp and paper mill in both comparative periods.

Paper unit manufacturing costs were slightly lower than the fourth quarter of 2021, primarily reflecting improved productivity in the current period, with slush pulp costs broadly comparable quarter-over-quarter. Compared to the first quarter of 2021, paper unit manufacturing costs saw a substantial increase, principally driven by higher slush pulp costs tied to the increase in average NBSK pulp unit sales realizations in the current quarter, offset in part by reduced spend on operating supplies (timing-related).

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)		Q1 2022		Q4 2021		Q1 2021
Corporate costs	**$**	**(15.1)**	$	(15.9)	$	(9.0)
Finance expense, net	**$**	**(4.3)**	$	(4.2)	$	(7.5)
Foreign exchange gain (loss) on term debt and duty deposits recoverable, net	**$**	**0.5**	$	(3.0)	$	0.5
Gain (loss) on derivative financial instruments	**$**	**2.8**	$	(4.6)	$	(13.1)
Other income, net	**$**	**5.9**	$	5.3	$	13.2

Corporate costs were $15.1 million for the first quarter of 2022, down $0.8 million from the previous quarter reflecting increased incentive expenses in the comparative period following the unprecedented earnings in 2021. Compared to the first quarter of 2021, corporate costs were up $6.1 million principally due to higher legal and consulting costs associated with the Millar Western transaction, as well as an increase in strategic-related spend and head office and general administrative expenses in the current period.

Net finance expense of $4.3 million for the first quarter of 2022 was broadly in line with the previous quarter. Compared to the first quarter of 2021, net finance expense was down $3.2 million, primarily reflecting a decrease in interest expense associated with the Company's lower debt levels in the current period.

In the first quarter of 2022, the Company recognized a foreign exchange gain of $3.5 million on its US-dollar term debt held by Canadian entities, offset by a $3.0 million loss on US-dollar denominated net duty deposits recoverable, both due to the strengthening of the Canadian dollar at the close of the current quarter compared to the end of December 2021 (see further discussion on the term debt financing in the "Liquidity and Financial Requirements" section).

At times, the Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in lumber prices, energy costs, interest and foreign exchange rates. In the first quarter of 2022, the Company recorded a gain of $2.8 million related to its derivative instruments, primarily reflecting unrealized mark-to-market gains on lumber futures contracts and, to a lesser extent, unrealized gains on SEK foreign exchange forward contracts.

Other income, net, of $5.9 million in the first quarter of 2022 principally reflected favourable foreign exchange movements on US-dollar denominated working capital balances.

Other Comprehensive Loss

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

(millions of Canadian dollars)		Q1 2022		Q4 2021		Q1 2021
Defined benefit actuarial gain, net of tax	**$**	**24.8**	$	6.7	$	23.2
Foreign exchange translation differences for foreign operations, net of tax	**$**	**(65.9)**	$	(26.4)	$	(63.7)
Other comprehensive loss, net of tax	**$**	**(41.1)**	$	(19.7)	$	(40.5)

In the first quarter of 2022, the Company recorded a gain of $34.0 million (before tax) related to changes in the valuation of the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), largely reflecting a 0.8% increase in the discount rate used to value the employee future benefit plans, partially offset by a lower than anticipated return on plan assets. This compared to a gain of $9.9 million (before tax) in the fourth quarter of 2021, primarily reflecting a higher than anticipated return on plan assets. In the first quarter of 2021, the Company recorded a gain of $31.8 million (before tax), largely reflecting a 0.5% increase in the discount rate used to value the employee future benefit plans.

In addition, the Company recorded an accounting loss of $65.9 million in the first quarter of 2022 related to foreign exchange differences for foreign operations due to the strengthening of the Canadian dollar relative to the SEK, and to a lesser extent, relative to the US-dollar at the end of the quarter. This compared to a loss of $26.4 million in the fourth quarter of 2021 and $63.7 million in the first quarter of 2021.

SUMMARY OF FINANCIAL POSITION

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

(millions of Canadian dollars, except for ratios)	Q1 2022	Q4 2021	Q1 2021
Decrease in cash and cash equivalents[21]	**$ (222.8)**	$ (95.0)	$ (27.5)
Operating activities	**$ 304.0**	$ 95.8	$ 310.4
Financing activities	**$ (12.5)**	$ (23.6)	$ (225.8)
Investing activities	**$ (514.3)**	$ (167.2)	$ (112.1)
Ratio of current assets to current liabilities	**2.8 : 1**	2.9 : 1	2.3 : 1
Net debt (cash) to total capitalization[22]	**(22.8)%**	(37.3)%	2.7%
Cumulative duty deposits paid	**$ 771.1**	$ 682.5	$ 614.7

[21] Decrease in cash and cash equivalents shown before foreign exchange translation on cash and cash equivalents.
[22] Net debt (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

Operating activities generated $304.0 million of cash in the first quarter of 2022, compared to cash generated of $95.8 million in the previous quarter and $310.4 million in the first quarter of 2021. The increase in operating cash flows from the previous quarter was largely due to significantly higher cash earnings in the current quarter, partially offset by unfavourable working capital movements. The latter primarily reflected an increase in trade receivables, largely driven by the substantial uplift in unit sales realizations, combined with the traditional seasonal log inventory build, as well as higher finished lumber inventories on hand at the end of the current period, in part due to the Millar Western acquisition and ongoing transportation constraints. Compared to the first quarter of 2021, operating cash flows were slightly lower as higher income tax instalment payments in the current quarter outweighed the benefit of increased cash earnings and favourable working capital movements, largely attributable to an increase in accounts payable and accrued liabilities (timing-related) in the current period.

Financing Activities

Cash used for financing activities in the first quarter of 2022 was $12.5 million compared to cash used of $23.6 million in the previous quarter and $225.8 million in the first quarter of 2021. Financing activities in the current quarter largely consisted of share repurchases, lease and interest payments, while financing activities in the fourth quarter of 2021 primarily reflected lease and debt payments. In the first quarter of 2021, financing activities principally comprised the repayment of the Company's $225.0 million term debt facility, and to a lesser extent, lease and interest charges.

Investing Activities

Cash used for investing activities was $514.3 million for the current quarter, compared to cash used of $167.2 million for the previous quarter and $112.1 million for the same quarter of 2021. Investing activities in the current quarter were largely comprised of the acquisition of Millar Western for preliminary consideration of $418.1 million. Investing activities in the fourth quarter of 2021 were largely comprised of capital additions. In the first quarter of 2021, investing activities principally reflected the final instalment payment associated with the phased acquisition of Elliott Sawmilling Co., LLC ("Elliott").

Excluding the aforementioned acquisition, capital additions in the first quarter of 2022 were $81.3 million, down $94.0 million from the previous quarter and up $15.5 million from the first quarter of 2021. In the lumber segment, current quarter capital expenditures largely reflected discretionary capital upgrades in Western Canada and spend related to the ongoing construction of the Company's greenfield sawmill in DeRidder, Louisiana. In the pulp and paper segment, capital expenditures were primarily comprised of Northwood's RB1 capital upgrades, as well as maintenance-of-business capital.

Liquidity and Financial Requirements

Operating Loans - Consolidated

At March 31, 2022, on a consolidated basis, including CPPI and the Vida Group ("Vida"), the Company had cash and cash equivalents of $1,107.4 million, with $21.6 million drawn on its operating loans and facilities, and an additional

$80.6 million reserved for several standby letters of credit. At the end of the quarter, the Company had available, undrawn operating loan facilities of $1,143.0 million, including an undrawn committed revolving credit facility.

Operating Loans – Canfor, excluding Vida and CPPI

Interest is payable on Canfor's committed operating and revolving loan facilities, excluding Vida and CPPI, at floating rates based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio. Canfor's committed operating loan facility is repayable on October 27, 2026. On June 28, 2023, any amounts drawn on the committed revolving credit facility will be converted to US-dollar denominated floating rate term debt, with a maturity date of June 28, 2031.

As at March 31, 2022, Canfor, excluding CPPI and Vida, had available operating loan facilities totaling $1,032.7 million, with no amounts drawn on its committed revolving facility, and $67.7 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans, leaving $965.0 million available and undrawn on its operating loan facilities at the end of the period.

Operating Loans – Vida

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 1.2% to 5.0%. Vida also has separate overdraft facilities with fixed interest rates ranging from 1.2% to 3.5%. Vida's operating loan facilities have certain financial covenants including minimum equity and interest coverage ratios.

At March 31, 2022, Vida had $21.6 million drawn on its $102.5 million operating loan facilities, leaving $80.9 million available and undrawn at the end of the quarter.

Operating Loans – CPPI

The terms of CPPI's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization and is based on lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin. CPPI's operating loan facility is repayable on December 15, 2025.

At March 31, 2022, CPPI had a $110.0 million operating loan facility, with $12.9 million reserved for several standby letters of credit under the operating loan facility, leaving $97.1 million available and undrawn on its operating loan facility at the end of the quarter.

Term Debt

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

Net Debt (Cash) and Liquidity

At March 31, 2022, on a consolidated basis, including CPPI and Vida, the Company had total net cash of $842.4 million, down $247.7 million from the end of the previous quarter. Available liquidity of $2,250.4 million decreased by $251.7 million from the previous quarter.

The Company's consolidated net cash to total capitalization at the end the first quarter of 2022 was 22.8%. For Canfor, excluding CPPI, net cash to capitalization at the end of the first quarter of 2022 was 25.5%.

Debt Covenants

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

Normal Course Issuer Bid

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

During the first quarter of 2022, the Company purchased 269,200 common shares for $7.3 million (an average price of $27.12 per common share), of which $5.7 million was paid during the current quarter.

Shares Outstanding

As at March 31, 2022 and May 2, 2022, there were 124,224,400 common shares of the Company outstanding, and Canfor's ownership interest in CPPI and Vida was at 54.8% and 70.0%, respectively.

Millar Western Acquisition

On March 1, 2022, Canfor completed the acquisition of Millar Western's solid wood operations and associated forest tenure, for total consideration of $438.4 million, including $101.5 million in net working capital, of which $418.1 million was paid during the current quarter. Millar Western's solid wood operations, located in Alberta, Canada, consist of two sawmills and one high-value specialty facility and have an annual production capacity of 630 million board feet. The transaction was accounted for as a business combination in Canfor's lumber segment.

Further details are provided under Note 12 of Canfor's condensed consolidated interim financial statements.

Major Capital Investment in Urbana Sawmill

On April 21, 2022, the Company announced that it will invest approximately $165 million (US$130 million) to significantly upgrade and expand its sawmill and planer facility located in Urbana in Union County, Arkansas. The investment will capitalize on the abundant supply of high-quality fiber to enhance the manufacturing of high-value products, increase annual production at the facility by 115 million board feet, and result in a meaningful reduction in the facility's cost structure. The investment aligns with Canfor's growth and diversification strategy to keep pace with growing customer demand. The upgrades include major improvements to the planer, sawmill and log yard and are expected to commence in the third quarter of 2022 and will take approximately 18 months to complete.

Net-Zero Carbon Emissions Plan

Building on the Company's comprehensive sustainability strategy, on April 26, 2022, the Company announced the implementation of a comprehensive plan to achieve net-zero carbon emissions by 2050. To achieve net-zero, the Company has developed near term science-based targets that include reducing the carbon emissions from its lumber and pulp operations, which are defined as Scope 1 and Scope 2, by 42% by 2030 compared to a base year of 2020. The Company intends to invest at least $250 million in carbon reduction initiations over the next eight years to reduce carbon emissions and achieve this target. In addition, by 2024 the Company will measure and assess global supply chain and woodlands emissions, which are defined as Scope 3, and set a science-based reduction target.

OUTLOOK

Lumber

Looking ahead, global lumber market fundamentals are anticipated to remain strong through the second quarter of 2022. New home construction in North America is projected to show continued strength in the near term, supported by lean home inventory, an aging housing stock and high levels of homeowner equity. As the year progresses, however, new home construction activity is estimated to face increased headwinds due to high inflation, rising interest rates and decreasing housing affordability. Demand in the repair and remodeling sector is anticipated to soften somewhat, principally reflecting inflationary cost pressures and competing uses for discretionary spending.

Offshore lumber demand in Asia is forecast to experience some downward pressure in the second quarter of 2022 before improving through the balance of the year as inventories in the region move back into balance. The outlook for European markets remains positive moving into the second quarter but is anticipated to face increasing challenges associated with rising inflation and Russia's recent invasion of the Ukraine which has disrupted regional supply networks.

Results in the second quarter will reflect reduced operating schedules across the Company's Western Canadian lumber operations as a result of the cumulative effects of the supply chain crisis that has been ongoing for several months. The Company will continue to closely monitor the supply chain situation and will adjust future lumber operating schedules, as appropriate, through the balance of the second quarter and into latter half of 2022.

In addition, the permanent reduction of 150 million board feet of production capacity at the Company's Plateau sawmill in BC is anticipated to take effect at the end of the second quarter of 2022. The resizing will align the facility with the reduction in available, sustainable timber supply in the region following the Mountain Pine Beetle infestation and other constraints on the timber harvesting land base.

Pulp and Paper

Global softwood kraft pulp markets are projected to remain strong through the second quarter of 2022, driven largely by tight supply arising from the current global supply chain challenges and transportation constraints in BC, as well as the traditional spring maintenance period. High yield markets are forecast to see more modest improvements through the second quarter of 2022, also tied to limited supply availability.

Results in the second quarter of 2022 are anticipated to reflect in part, the near record-high US-dollar pulp list pricing seen in the first quarter of 2022. However, the intermittent and limited rail service experienced in BC in the first quarter of 2022 is projected to continue well into the second quarter, putting sustained pressure on CPPI's operations and shipments through the coming months, including, as previously announced, the extension of a transportation-related curtailment at Taylor by at least a further six-weeks, with a projected 25,000 tonnes of reduced BCTMP production. CPPI will continue to closely monitor the ongoing supply chain challenges and will adjust future operating plans accordingly through the balance of the second quarter and 2022.

In addition, CPPI's results in the second quarter of 2022 will reflect the impact of the RB1 capital-related outage at Northwood into mid-April (approximately 10,000 tonnes), as well as a scheduled maintenance outage at Northwood in the latter part of the second quarter, with a projected 25,000 tonnes of reduced NBSK pulp production. With the RB1 rebuild now complete, a key focus of CPPI's kraft pulp mills for the balance of 2022 will be on improving operational reliability and closely managing manufacturing and fibre costs.

Bleached kraft paper markets are projected to show continued strength through the second quarter of 2022, as tight supply and low inventories in the North American and Asian paper markets is combined with growing demand for kraft paper products.

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 financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, certain accounts receivable, pension and other employee future benefit plans, asset retirement and deferred reforestation obligations, and the determination of ADD expensed and recorded as recoverable based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Company's financial condition, other than the possibility of material effects to the income statement from the Company's estimated ADD net duty deposits recoverable as discussed in Notes 4 and 13 of the condensed consolidated interim financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

With the recent acquisition of Millar Western on March 1, 2022, the scope of the Company's design of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") as at March 31, 2022, has been limited to exclude the controls, policies and procedures of Millar Western. Following the completion of such an evaluation, however, the Company intends to include such controls, policies and procedures within the design of DC&P and ICFR. Additional information about the acquisition is provided under Note 12 of Canfor's consolidated interim financial statements.

Other than the aforementioned Millar Western acquisition, there were no changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2022 that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2021 annual statutory reports which are available on www.canfor.com or www.sedar.com.

There have been no adverse impacts of COVID-19 on the Company in the first quarter of 2022. The Company continues to closely monitor the impacts of COVID-19, however, should the duration, spread or intensity of the pandemic change, supply chain, market pricing and customer demand could be affected. These factors could impact the Company's operating plan, liquidity, cash flows, and the valuation of long-lived assets. Please see the Company's annual disclosures referenced above for further information.

In addition to exposure to changes in product prices and foreign exchange, the Company's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions, as well as 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 chain networks and demand conditions.

Net income is also impacted by fluctuations in Canadian dollar exchange rates, and the revaluation to the period end rate of US-dollar and SEK denominated working capital balances, US-dollar and SEK denominated debt and revaluation of outstanding derivative financial instruments.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 2,213.3**	$ 1,571.3	$ 1,676.6	$ 2,495.2	$ 1,941.8	$ 1,618.0	$ 1,550.4	$ 1,115.3
Operating income before amortization and impairments[23]	**$ 830.7**	$ 321.7	$ 425.4	$ 1,134.6	$ 696.7	$ 520.0	$ 393.1	$ 189.5
Operating income (loss)	**$ 741.9**	$ (66.8)	$ 331.0	$ 1,041.3	$ 602.6	$ 419.6	$ 299.6	$ 96.9
Net income (loss)	**$ 570.5**	$ (35.5)	$ 256.8	$ 784.6	$ 452.9	$ 346.7	$ 216.0	$ 62.4
Shareholder net income (loss)	**$ 534.0**	$ (23.1)	$ 210.0	$ 726.9	$ 427.8	$ 335.6	$ 218.1	$ 60.7
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ 4.29**	$ (0.19)	$ 1.68	$ 5.81	$ 3.42	$ 2.68	$ 1.74	$ 0.48
Book value[24]	**$ 31.96**	$ 27.99	$ 28.23	$ 26.26	$ 20.64	$ 17.63	$ 15.04	$ 13.51
Statistics								
Lumber shipments (MMfbm)[25]	**1,407**	1,320	1,316	1,540	1,449	1,560	1,371	1,154
Pulp shipments (000 mt)	**176**	216	241	285	265	258	249	248
Average exchange rate – US$/Cdn$	**$ 0.790**	$ 0.794	$ 0.794	$ 0.814	$ 0.790	$ 0.767	$ 0.751	$ 0.722
Average exchange rate – SEK/Cdn$	**7.367**	7.026	6.865	6.851	6.628	6.608	6.650	6.983
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 1,274**	$ 711	$ 494	$ 1,342	$ 972	$ 700	$ 768	$ 357
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 1,372**	$ 862	$ 533	$ 1,163	$ 1,160	$ 777	$ 782	$ 463
Average SYP (East) 2x6 #2 lumber price (US$)	**$ 1,102**	$ 538	$ 407	$ 946	$ 904	$ 537	$ 716	$ 410
Average NBSK pulp list price delivered to China (US$)	**$ 899**	$ 723	$ 832	$ 962	$ 883	$ 637	$ 572	$ 572

[23] Amortization includes amortization of certain capitalized major maintenance costs; includes asset impairment charges of $293.5 million in Q4 2021.
[24] 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.
[25] 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.

Other material factors that impact the comparability of the quarters are noted below:

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except for per share amounts)	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Shareholder net income (loss), as reported	**$ 534.0**	$ (23.1)	$ 210.0	$ 726.9	$ 427.8	$ 335.6	$ 218.1	$ 60.7
Foreign exchange (gain) loss on term debt	**$ (3.0)**	$ 0.2	$ 2.6	$ (5.7)	$ (2.6)	$ (11.7)	$ (1.7)	$ (5.2)
(Gain) loss on derivative financial instruments	**$ (2.0)**	$ 3.0	$ (0.8)	$ -	$ 9.0	$ (2.2)	$ 5.3	$ 2.9
Asset impairments	**$ -**	$ 182.9	$ -	$ -	$ -	$ -	$ -	$ -
Restructuring, mill closure and other items, net	**$ -**	$ (8.4)	$ (2.8)	$ -	$ -	$ -	$ -	$ 10.5
Net impact of above items	**$ (5.0)**	$ 177.7	$ (1.0)	$ (5.7)	$ 6.4	$ (13.9)	$ 3.6	$ 8.2
Adjusted shareholder net income[26]	**$ 529.0**	$ 154.6	$ 209.0	$ 721.2	$ 434.2	$ 321.7	$ 221.7	$ 68.9
Shareholder net income (loss) per share (EPS), as reported	**$ 4.29**	$ (0.19)	$ 1.68	$ 5.81	$ 3.42	$ 2.68	$ 1.74	$ 0.48
Net impact of above items per share	**$ (0.04)**	$ 1.43	$ -	$ (0.05)	$ 0.05	$ (0.11)	$ 0.03	$ 0.07
Adjusted shareholder net income per share[26]	**$ 4.25**	$ 1.24	$ 1.68	$ 5.76	$ 3.47	$ 2.57	$ 1.77	$ 0.55

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

NON-IFRS FINANCIAL MEASURES

Throughout this interim 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 condensed consolidated interim financial statements:

(millions of Canadian dollars)	Q1 2022	Q4 2021	Q1 2021
Reported operating income (loss)	$ 741.9	$ (66.8)	$ 602.6
Asset impairments	$ -	$ 293.5	$ -
Inventory write-down (recovery), net	$ (1.1)	$ 1.1	$ (2.2)
Restructuring, mill closure and other items, net	$ -	$ (11.5)	$ -
Adjusted operating income	$ 740.8	$ 216.3	$ 600.4
Amortization	$ 88.8	$ 95.0	$ 94.1
Adjusted operating income before amortization and impairments	$ 829.6	$ 311.3	$ 694.5

After-tax impact, net of non-controlling interests (millions of Canadian dollars)	Q1 2022	Q4 2021	Q1 2021
Reported operating income (loss)	$ 741.9	$ (66.8)	$ 602.6
Realized loss on derivative financial instruments	$ 3.2	$ 1.8	$ 2.0
Other income, net	$ 5.9	$ 5.3	$ 13.2
Less: non-controlling interests	$ (55.4)	$ 12.7	$ (39.8)
Return (Loss)	$ 695.6	$ (47.0)	$ 578.0
Average invested capital[27]	$ 3,511.7	$ 3,174.4	$ 3,264.6
Return on invested capital (ROIC)	19.8%	(1.5)%	17.7%

[27] 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)	As at March 31, 2022	As at December 31, 2021
Term debt	$ 243.4	$ 246.0
Operating loans	$ 21.6	$ 18.7
Less: cash and cash equivalents	$ 1,107.4	$ 1,354.8
Net cash	$ (842.4)	$ (1,090.1)
Total equity	$ 4,534.9	$ 4,009.1
Total capitalization	$ 3,692.5	$ 2,919.0
Net cash to total capitalization	$ 22.8%	$ 37.3%

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		As at March 31, 2022		As at December 31, 2021
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**1,107.4**	$	1,354.8
Accounts receivable - Trade		**609.5**		430.4
- Other		**97.0**		84.1
Inventories (Note 3)		**1,466.1**		1,173.8
Prepaid expenses and other		**125.8**		120.3
Total current assets		**3,405.8**		3,163.4
Property, plant and equipment		**2,051.8**		1,812.7
Right-of-use assets		**66.9**		65.5
Timber licenses		**394.0**		313.2
Goodwill and other intangible assets		**530.1**		514.8
Long-term investments and other (Note 4)		**366.3**		304.3
Total assets	**$**	**6,814.9**	$	6,173.9
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**881.2**	$	730.2
Operating loans (Note 5(a))		**21.6**		18.7
Current portion of deferred reforestation obligations		**64.7**		58.3
Current portion of term debt (Note 5(b))		**0.4**		0.5
Current portion of lease obligations		**21.9**		21.9
Income taxes payable		**220.6**		252.0
Total current liabilities		**1,210.4**		1,081.6
Term debt (Note 5(b))		**243.0**		245.5
Retirement benefit obligations (Note 6)		**173.0**		205.5
Lease obligations		**50.9**		49.2
Deferred reforestation obligations		**77.8**		54.6
Other long-term liabilities		**23.8**		31.0
Put liability (Note 7)		**145.0**		156.2
Deferred income taxes, net		**356.1**		341.2
Total liabilities	**$**	**2,280.0**	$	2,164.8
EQUITY				
Share capital	**$**	**980.1**	$	982.2
Contributed surplus and other equity		**(127.0)**		(130.9)
Retained earnings		**3,137.2**		2,586.8
Accumulated other comprehensive income (loss)		**(20.0)**		45.9
Total equity attributable to equity shareholders of the Company		**3,970.3**		3,484.0
Non-controlling interests		**564.6**		525.1
Total equity	**$**	**4,534.9**	$	4,009.1
Total liabilities and equity	**$**	**6,814.9**	$	6,173.9

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

APPROVED BY THE BOARD

Director, R.S. Smith

Director, The Hon. J.R. Baird

Canfor Corporation
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)		3 months ended March 31, **2022**		2021
Sales	**$**	**2,213.3**	$	1,941.8
Costs and expenses				
Manufacturing and product costs		**1,112.8**		1,011.0
Freight and other distribution costs		**190.5**		169.6
Countervailing and anti-dumping duty expense, net (Note 13)		**37.9**		31.1
Amortization		**88.8**		94.1
Selling and administration costs		**41.4**		33.4
		1,471.4		1,339.2
Operating income		**741.9**		602.6
Finance expense, net		**(4.3)**		(7.5)
Foreign exchange gain on term debt		**3.5**		3.0
Foreign exchange loss on duties recoverable, net		**(3.0)**		(2.5)
Gain (loss) on derivative financial instruments (Note 7)		**2.8**		(13.1)
Other income, net		**5.9**		13.2
Net income before income taxes		**746.8**		595.7
Income tax expense (Note 8)		**(176.3)**		(142.8)
Net income	**$**	**570.5**	$	452.9
Net income attributable to:				
Equity shareholders of the Company	**$**	**534.0**	$	427.8
Non-controlling interests		**36.5**		25.1
Net income	**$**	**570.5**	$	452.9
Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 9)	**$**	**4.29**	$	3.42

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

Canfor Corporation
Condensed Consolidated Statements of Other Comprehensive Loss

(millions of Canadian dollars, unaudited)		3 months ended March 31, **2022**		2021
Net income	**$**	**570.5**	$	452.9
Other comprehensive loss				
Items that will not be reclassified subsequently to net income:				
Defined benefit plan actuarial gains, net (Note 6)		**34.0**		31.8
Income tax expense on defined benefit plan actuarial gains, net (Note 8)		**(9.2)**		(8.6)
		24.8		23.2
Items that may be reclassified subsequently to net income:				
Foreign exchange losses from translation of foreign operations, net of tax		**(65.9)**		(63.7)
Other comprehensive loss, net of tax		**(41.1)**		(40.5)
Total comprehensive income	**$**	**529.4**	$	412.4
Total comprehensive income attributable to:				
Equity shareholders of the Company	**$**	**489.7**	$	385.2
Non-controlling interests		**39.7**		27.2
Total comprehensive income	**$**	**529.4**	$	412.4

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

Canfor Corporation
Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended March 31, 2022	2021
Share capital		
Balance at beginning of period	**$ 982.2**	$ 987.9
Share purchases (Note 9)	**(2.1)**	-
Balance at end of period	**$ 980.1**	$ 987.9
Contributed surplus and other equity		
Balance at beginning of period	**$ (130.9)**	$ (127.4)
Put liability (Note 7)	**3.9**	(8.3)
Balance at end of period	**$ (127.0)**	$ (135.7)
Retained earnings		
Balance at beginning of period	**$ 2,586.8**	$ 1,227.3
Net income attributable to equity shareholders of the Company	**534.0**	427.8
Defined benefit plan actuarial gains, net of tax	**21.6**	21.1
Share purchases (Note 9)	**(5.2)**	-
Balance at end of period	**$ 3,137.2**	$ 1,676.2
Accumulated other comprehensive income (loss)		
Balance at beginning of period	**$ 45.9**	$ 119.7
Foreign exchange losses from translation of foreign operations, net of tax	**(65.9)**	(63.7)
Balance at end of period	**$ (20.0)**	$ 56.0
Total equity attributable to equity shareholders of the Company	**$ 3,970.3**	$ 2,584.4
Non-controlling interests		
Balance at beginning of period	**$ 525.1**	$ 426.2
Net income attributable to non-controlling interests	**36.5**	25.1
Defined benefit plan actuarial gains attributable to non-controlling interests, net of tax	**3.2**	2.1
Distributions to non-controlling interests	**(0.2)**	(0.7)
Balance at end of period	**$ 564.6**	$ 452.7
Total equity	**$ 4,534.9**	$ 3,037.1

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

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2022**	2021
Cash generated from (used in):		
Operating activities		
Net income	**$ 570.5**	$ 452.9
Items not affecting cash:		
Amortization	**88.8**	94.1
Income tax expense	**176.3**	142.8
Change in long-term portion of deferred reforestation obligations, net	**17.8**	14.0
Foreign exchange gain on term debt	**(3.5)**	(3.0)
Foreign exchange loss on duty deposits recoverable, net	**3.0**	2.5
Adjustment to accrued duties (Note 13)	**(50.7)**	10.4
Changes in mark-to-market value of derivative financial instruments (Note 7)	**(6.1)**	11.1
Employee future benefits expense	**2.0**	2.5
Finance expense, net	**4.3**	7.5
Other, net	**1.1**	(5.5)
Defined benefit plan contributions, net	**(3.8)**	(4.1)
Income taxes paid, net	**(208.0)**	(60.1)
	591.7	665.1
Net change in non-cash working capital (Note 10)	**(287.7)**	(354.7)
	304.0	310.4
Financing activities		
Operating loan drawings, net	**3.8**	17.1
Repayments of term debt, net	**(0.1)**	(229.1)
Payment of lease obligations	**(6.9)**	(6.3)
Finance expenses paid	**(3.4)**	(6.8)
Share purchases (Note 9)	**(5.7)**	-
Cash distributions paid to non-controlling interests	**(0.2)**	(0.7)
	(12.5)	(225.8)
Investing activities		
Additions to property, plant and equipment and intangible assets, net	**(81.3)**	(65.8)
Acquisition of Millar Western (Note 12)	**(418.1)**	-
Phased acquisition of Elliott	**-**	(38.2)
Other, net	**(14.9)**	(8.1)
	(514.3)	(112.1)
Foreign exchange loss on cash and cash equivalents	**(24.6)**	(6.7)
Decrease in cash and cash equivalents*	**(247.4)**	(34.2)
Cash and cash equivalents at beginning of period*	**1,354.8**	419.2
Cash and cash equivalents at end of period*	**$ 1,107.4**	$ 385.0

*Cash and cash equivalents include cash on hand less unpresented cheques.

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

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*, and include the accounts of Canfor Corporation and its subsidiaries, hereinafter referred to as "Canfor" or "the Company." Significant subsidiaries include Canfor Southern Pine, Inc. ("CSP") and entities related to the acquisition of Millar Western Forest Products Ltd. ("Millar Western"), which are wholly owned, as well as Canfor Pulp Products Inc. ("CPPI") and the Vida Group ("Vida"), of which Canfor owned 54.8% and 70.0%, respectively, at March 31, 2022.

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company's Annual Report for the year ended December 31, 2021, available at www.canfor.com or www.sedar.com.

These financial statements were authorized for issue by the Company's Board of Directors on May 2, 2022.

2. Seasonality of Operations

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

3. Inventories

(millions of Canadian dollars, unaudited)	**As at March 31, 2022**	As at December 31, 2021
Logs	**$ 491.9**	$ 343.4
Finished products	**765.8**	639.2
Residual fibre	**59.9**	56.5
Materials and supplies	**148.5**	134.7
	$ 1,466.1	$ 1,173.8

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended March 31, 2022 and 2021, no inventory valuation adjustment was recognized for the lumber segment. For the three months ended March 31, 2022, a $1.1 million inventory write-down recovery was recognized for the pulp and paper segment (three months ended March 31, 2021 – $2.2 million write-down recovery). At March 31, 2022, an inventory provision of $3.5 million has been recognized for finished pulp and raw materials (December 31, 2021 – $4.6 million).

4. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)	**As at March 31, 2022**	As at December 31, 2021
Duty deposits recoverable, net (Note 13)	**$ 237.5**	$ 188.4
Other deposits, loans, advances and long-term assets	**53.2**	49.0
Other investments	**32.7**	37.5
Retirement benefit surplus	**26.1**	24.0
Deferred income taxes, net (Note 8)	**16.8**	5.4
	$ 366.3	$ 304.3

The duty deposits recoverable, net balance represents US-dollar countervailing duties ("CVD") and anti-dumping duties ("ADD") and duty cash deposits paid in excess of the calculated expense accrued at March 31, 2022, including interest receivable of $26.0 million (December 31, 2021 – $24.8 million) (Note 13).

5. Operating Loans and Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)		**As at March 31, 2022**		As at December 31, 2021
Canfor (excluding Vida and CPPI)				
Available operating loans:				
Operating loan facility	**$**	**775.0**	$	775.0
Revolving credit facility (US$150.0 million)		**187.7**		190.2
Facilities for letters of credit		**70.0**		70.0
Total operating loan facilities		**1,032.7**		1,035.2
Letters of credit		**(67.7)**		(67.8)
Total available operating loan facilities - Canfor	**$**	**965.0**	$	967.4
Vida				
Available operating loans:				
Operating loan facilities	**$**	**68.0**	$	71.3
Overdraft facilities		**34.5**		30.2
Total operating loan facilities		**102.5**		101.5
Operating loan facilities drawn		**(21.6)**		(18.7)
Total available operating loan facilities - Vida	**$**	**80.9**	$	82.8
CPPI				
Available operating loans:				
Operating loan facility	**$**	**110.0**	$	110.0
Letters of credit		**(12.9)**		(12.9)
Total available operating loan facility - CPPI	**$**	**97.1**	$	97.1
Consolidated:				
Total operating loan facilities	**$**	**1,245.2**	$	1,246.7
Total operating loan facilities drawn	**$**	**(21.6)**	$	(18.7)
Total letters of credit	**$**	**(80.6)**	$	(80.7)
Total available operating loan facilities	**$**	**1,143.0**	$	1,147.3

Interest is payable on Canfor's committed operating and revolving loan facilities (excluding Vida and CPPI) at floating rates based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio. Canfor's committed operating loan facility is repayable on October 27, 2026. On June 28, 2023, any amounts drawn on the committed revolving credit facility will be converted to US-dollar denominated floating rate term debt, with a maturity date of June 28, 2031.

Canfor (excluding Vida and CPPI) has a separate facility to cover letters of credit. At March 31, 2022, $65.3 million of letters of credit outstanding are covered under this facility with the balance of $2.4 million covered under Canfor's committed operating loan facility.

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 1.2% to 5.0%. Vida also has separate overdraft facilities with fixed interest rates ranging from 1.2% to 3.5%.

The terms of CPPI's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization and is based on lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin. CPPI's operating loan facility is repayable on December 15, 2025.

Canfor and CPPI's operating loan facilities have certain financial covenants, including maximum debt to total capitalization ratios. Vida is also subject to certain financial covenants, including minimum equity and interest coverage ratios. As at March 31, 2022, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their operating loan facilities. Substantially all borrowings of Vida and CPPI are non-recourse to other entities within the Company.

(b) Term Debt

(millions of Canadian dollars, unaudited)		**As at March 31, 2022**		As at December 31, 2021
Canfor (excluding Vida and CPPI)				
US$50.0 million, floating interest, repayable on June 28, 2031	**$**	**62.6**	$	63.4
US$100.0 million, fixed interest of 4.4%, repayable in three equal tranches on October 2, 2023, 2024 and 2025		**125.1**		126.8
Other		**4.7**		4.6
Vida				
SEK 1.6 million, floating interest, repayable April 30, 2022		**0.2**		0.5
SEK 1.3 million, floating interest, repayable August 31, 2024		**0.2**		0.2
AUD 0.7 million, floating interest, repayable between April 1, 2022 and July 22, 2030		**0.6**		0.5
CPPI				
CAD $50.0 million, floating interest, repayable December 15, 2024		**50.0**		50.0
Term debt at end of period	**$**	**243.4**	$	246.0
Less: Current portion		**(0.4)**		(0.5)
Long-term portion	**$**	**243.0**	$	245.5

Canfor's and CPPI's term debt (excluding Vida) is unsecured. Vida's term debt is secured by its property, plant and equipment. Canfor's and CPPI's borrowings (excluding Vida) are subject to certain financial covenants, including a maximum debt to total capitalization ratio. Vida's borrowings are subject to certain financial covenants, including minimum equity and interest coverage ratios. As at March 31, 2022, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their term debt.

Fair value of total term debt

At March 31, 2022, the fair value of the Company's term debt is $233.9 million (December 31, 2021 – $247.8 million), determined based on prevailing market rates for term debt with similar characteristics and risk profile.

6. Employee Future Benefits

For the three months ended March 31, 2022 and March 31, 2021, defined benefit plan actuarial gains of $34.0 million and $31.8 million (before tax), respectively, were recognized in other comprehensive loss, both reflecting a higher discount rate used to value the net defined benefit obligations (comprised of defined benefit plans as well as other benefit plans), offset in part by a lower than anticipated return on plan assets.

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

	Defined Benefit Pension Plans	**Other Benefit Plans**
March 31, 2022	**3.8%**	**3.8%**
December 31, 2021	3.0%	3.0%
March 31, 2021	3.2%	3.2%
December 31, 2020	2.7%	2.7%

7. Financial Instruments

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

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

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

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

The following table summarizes Canfor's financial instruments measured at fair value at March 31, 2022 and December 31, 2021, and shows the level within the fair value hierarchy in which the financial instruments have been classified:

(millions of Canadian dollars, unaudited)	Fair Value Hierarchy Level		**As at March 31, 2022**		As at December 31, 2021
Financial assets measured at fair value					
Investments	Level 1	**$**	**31.1**	$	36.1
Derivative financial instruments	Level 2		**4.0**		-
Duty deposits recoverable, net (Note 4)	Level 3		**237.5**		188.4
		$	**272.6**	$	224.5
Financial liabilities measured at fair value					
Derivative financial instruments	Level 2	**$**	**-**	$	2.1
Put liability	Level 3		**145.0**		156.2
		$	**145.0**	$	158.3

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

	3 months ended March 31,			
(millions of Canadian dollars, unaudited)		**2022**		2021
Lumber futures	**$**	**2.3**	$	(9.7)
Foreign exchange forward contracts		**0.5**		(3.4)
Gain (loss) on derivative financial instruments	**$**	**2.8**	$	(13.1)

During the three months ended March 31, 2022, a gain of $3.9 million was recognized in 'Other Equity' on the Company's condensed consolidated balance sheet following remeasurement of the put liability (three months ended March 31, 2021 – loss of $8.3 million), primarily reflecting a change in option terms agreed to in the first quarter of 2022. As a result of this remeasurement, combined with a foreign exchange gain of $7.3 million (three months ended March 31, 2021 – gain of $12.4 million), the balance of the put liability was $145.0 million at March 31, 2022 (December 31, 2021 – $156.2 million).

8. Income Taxes

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

	3 months ended March 31,			
(millions of Canadian dollars, unaudited)		**2022**		2021
Current	**$**	**(176.5)**	$	(158.4)
Deferred		**0.2**		15.6
Income tax expense	**$**	**(176.3)**	$	(142.8)

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

	3 months ended March 31,			
(millions of Canadian dollars, unaudited)		**2022**		2021
Income tax expense at statutory rate of 27.0% (2021 – 27.0%)	**$**	**(201.6)**	$	(160.8)
Add (deduct):				
Non-taxable loss related to non-controlling interests		**-**		(0.2)
Entities with different income tax rates and other tax adjustments		**24.9**		17.8
Permanent difference from capital gains and losses and other non-deductible items		**0.4**		0.4
Income tax expense	**$**	**(176.3)**	$	(142.8)

In addition to the amounts recorded to net income, a tax expense of $9.2 million was recorded to other comprehensive loss in relation to actuarial gains, net, on the defined benefit plans for the three months ended March 31, 2022 (three months ended March 31, 2021 – $8.6 million).

9. Earnings Per Common Share and Normal Course Issuer Bid

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

	3 months ended March 31,	
	2022	2021
Weighted average number of common shares	**124,476,151**	125,219,400

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

During the three months ended March 31, 2022, the Company purchased 269,200 common shares for $7.3 million (an average of $27.12 per common share), of which $5.7 million was paid during the quarter.

As at March 31, 2022 and May 2, 2022, based on the trade date, there were 124,224,400 common shares of the Company outstanding and Canfor's ownership interest in CPPI and Vida was 54.8% and 70.0%, respectively.

10. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)		3 months ended March 31, 2022		2021
Accounts receivable	**$**	**(170.5)**	$	(157.3)
Inventories		**(199.6)**		(256.8)
Prepaid expenses and other		**(1.9)**		(15.7)
Accounts payable and accrued liabilities and current portion of deferred reforestation obligations		**84.3**		75.1
Net change in non-cash working capital	**$**	**(287.7)**	$	(354.7)

11. Segment Information

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

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

(millions of Canadian dollars, unaudited)		Lumber		Pulp & Paper		Unallocated & Other		Elimination Adjustment		Consolidated
3 months ended March 31, 2022										
Sales from contracts with customers	**$**	**1,993.7**	**$**	**219.6**	**$**	**-**	**$**	**-**	**$**	**2,213.3**
Sales to other segments		**37.4**		**0.1**		**-**		**(37.5)**		**-**
Operating income (loss)		**783.0**		**(26.0)**		**(15.1)**		**-**		**741.9**
Amortization		**68.3**		**20.1**		**0.4**		**-**		**88.8**
Capital expenditures[1]		**61.8**		**18.4**		**1.1**		**-**		**81.3**
Identifiable assets		**4,537.5**		**814.4**		**1,463.0**		**-**		**6,814.9**
3 months ended March 31, 2021										
Sales from contracts with customers	$	1,679.5	$	262.3	$	-	$	-	$	1,941.8
Sales to other segments		49.9		0.1		-		(50.0)		-
Operating income (loss)		606.7		4.9		(9.0)		-		602.6
Amortization		73.0		20.8		0.3		-		94.1
Capital expenditures[1]		32.2		33.0		0.6		-		65.8
Identifiable assets		3,793.7		896.9		667.4		-		5,358.0

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

Geographic information

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

(millions of Canadian dollars, unaudited)	3 months ended March 31, **2022**			3 months ended March 31, 2021		
Sales by location of customer						
Canada	**10%**	**$**	**219.7**	11%	$	224.4
United States	**60%**		**1,341.0**	56%		1,090.0
Europe	**16%**		**353.1**	16%		302.2
Asia	**12%**		**257.0**	15%		287.7
Other	**2%**		**42.5**	2%		37.5
	100%	**$**	**2,213.3**	100%	$	1,941.8

12. Acquisition of Millar Western Sawmill Assets

On March 1, 2022, Canfor completed the acquisition of Millar Western's solid wood operations and associated forest tenure for total consideration of $438.4 million, including $101.5 million in net working capital. Millar Western's solid wood operations, located in Alberta, Canada, consist of two sawmills and one high-value specialty facility and have an annual production capacity of 630 million board feet. The transaction was accounted for as a business combination under IFRS 3 *Business Combinations* ("IFRS 3") and is included in Canfor's lumber segment.

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

(millions of Canadian dollars, unaudited)		
Cash consideration paid	**$**	**418.1**
Consideration payable (preliminary working capital adjustment)		**20.3**
Total consideration	**$**	**438.4**
Property, plant and equipment	**$**	**235.5**
Timber licenses		**83.7**
Non-cash working capital, net (including inventory)		**101.5**
Goodwill		**29.5**
Deferred reforestation obligations		**(11.8)**
Total preliminary net identifiable assets	**$**	**438.4**

Following the completion of final review procedures related to the valuation of timber licenses, property, plant and equipment, as well as finalizing net working capital, preliminary amounts above may be revised.

The Company incurred acquisition-related costs of $3.1 million, primarily related to external legal fees and due diligence costs, which have been included in 'Selling and administration costs' in the condensed consolidated statement of income when incurred.

13. Countervailing and Anti-Dumping Duties

In 2016, a petition was filed by the US Lumber Coalition to the US Department of Commerce ("DOC") and the US International Trade Commission ("ITC") alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers. Canfor was selected by the DOC as a "mandatory respondent" to the countervailing and anti-dumping investigations and is subject to company specific CVD and ADD rates. As a result of the DOC's investigation, CVD and ADD were imposed on the Company's Canadian lumber exports to the United States beginning in 2017, with cash deposits posted at an ADD rate of 7.28% and CVD rate of 13.24% (combined cash deposit rate of 20.52%) from 2017 to November 2020, at a combined cash deposit rate of 4.62% from December 1, 2020 until November 30, 2021, and at a combined cash deposit rate of 19.54% thereafter. As at March 31, 2022, Canfor has paid cumulative cash deposits of $771.1 million.

Canfor and other Canadian forest product companies, the Federal Government and Canadian Provincial Governments continue to categorically deny the US allegations and strongly disagree with the current countervailing and anti-dumping determinations made by the DOC. Canada has proceeded with legal challenges under the United States-

Mexico-Canada Agreement and through the World Trade Organization, where Canadian litigation has proven successful in the past.

On January 1, 2022, the Company moved into the fifth period of review ("POR5"), which is based on sales and cost data in 2022. Consistent with prior periods of review, the Company was unable to estimate an applicable CVD rate separate from the DOC's cash deposit rate. As a result, CVD was expensed at a rate of 2.42% for the three months ended March 31, 2022, while ADD was expensed at an estimated rate of 5.00%, resulting in a combined CVD and ADD accrual rate of 7.42% (versus the combined cash deposit rate of 19.54%, comprised of a CVD rate of 2.42% and ADD rate of 17.12%) for the quarter. Despite cash deposits being made in 2022 at rates determined by the DOC (19.54%), the final liability associated with duties is not determined until the completion of administrative reviews performed by the DOC.

Also in January 2022, the DOC announced the preliminary results for the third period of review ("POR3"), which is based on sales and cost data in 2020. The Company's preliminary CVD and ADD rate for 2020 was determined to be 1.83% and 4.92%, respectively. Upon finalization of these rates (currently anticipated in the third quarter of 2022), a recovery, estimated at $88.8 million (US$66.5 million), will be recognized in the Company's condensed consolidated interim financial statements to reflect the difference between the combined accrual rates and the DOC rates for POR3.

In addition, upon finalization of these rates, the Company's current combined cash deposit rate of 19.54% will be reset to the final rates as determined in POR3 (6.75% based on the preliminary determination). This new cash deposit rate will apply to the Company's Canadian lumber shipments destined to the United States until completion of the administrative review for the fourth period of review ("POR4") (anticipated in 2023). Despite the reduced preliminary rates for POR3, no cash duties will be refunded to the Company until such time as the litigation regarding the imposition of CVD and ADD has been settled.

Summary

For accounting purposes, a net duty recoverable of $237.5 million is included on the Company's condensed consolidated balance sheet (Note 4) reflecting differences between the cash deposit rates and the Company's combined accrual rates for each period of review, including interest.

For the three months ended March 31, 2022, the Company recorded a net duty expense of $37.9 million (three months ended March 31, 2021 – $31.1 million), comprised of cash deposits paid of $88.6 million (three months ended March 31, 2021 – $20.7 million), offset by a recovery of $50.7 million (three months ended March 31, 2021 – expense of $10.4 million), reflecting a lower combined accrual rate (7.42%) compared to the DOC's cash deposit rate (19.54%) for POR5 to date.

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