



# 2019

**QUARTER FOUR**

INTERIM REPORT

FOR THE THREE MONTHS ENDED DEC. 31, 2019

**CANFOR CORPORATION**

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## To Our Shareholders

Canfor Corporation reported 2019 and fourth quarter 2019 results:

### Overview

- 2019 reported operating loss of \$294 million; adjusted operating loss of \$92 million; shareholder net loss of \$263 million, or \$2.10 per share
- Fourth quarter of 2019 reported operating loss of \$60 million; adjusted operating loss of \$33 million; shareholder net loss of \$39 million, or \$0.31 per share

### Financial Results

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

(millions of Canadian dollars, except per share amounts)	<b>Q4 2019</b>	<b>Q3 2019</b>	<b>YTD 2019</b>	<b>Q4 2018</b>	<b>YTD 2018</b>
Sales	\$ 1,105.2	\$ 1,091.4	\$ 4,658.3	\$ 1,028.1	\$ 5,044.4
Reported operating income (loss) before amortization	\$ 35.6	\$ (27.4)	\$ 67.9	\$ (9.1)	\$ 879.1
Reported operating income (loss)	\$ (59.6)	\$ (120.3)	\$ (294.3)	\$ (79.1)	\$ 608.6
Adjusted operating income before amortization <sup>1</sup>	\$ 62.7	\$ 27.2	\$ 269.9	\$ 67.5	\$ 1,084.9
Adjusted operating income (loss) <sup>1</sup>	\$ (32.5)	\$ (65.7)	\$ (92.3)	\$ (2.5)	\$ 814.4
Net income (loss) <sup>2</sup>	\$ (39.1)	\$ (88.5)	\$ (263.0)	\$ (52.4)	\$ 354.9
Net income (loss) per share, basic and diluted <sup>2</sup>	\$ (0.31)	\$ (0.71)	\$ (2.10)	\$ (0.42)	\$ 2.78
Adjusted net income (loss) <sup>2, 3</sup>	\$ (8.2)	\$ (42.5)	\$ (96.6)	\$ (28.0)	\$ 488.4
Adjusted net income (loss) per share, basic and diluted <sup>2, 3</sup>	\$ (0.06)	\$ (0.34)	\$ (0.77)	\$ (0.23)	\$ 3.83

2019 results include the adoption of IFRS 16 *Leases*, from January 1, 2019, on a prospective basis. Comparative periods have not been restated.

2019 results also include final adjustments to the Vida purchase price allocation, on a retrospective basis. Comparative periods have been restated.

<sup>1</sup> Adjusted for countervailing and anti-dumping duties expense (\$43.7 million in Q4 2019, \$53.5 million in Q3 2019, \$39.9 million in Q4 2018), inventory write-down recoveries (\$19.9 million net recovery in Q4 2019, \$5.3 million net recovery in Q3 2019, \$36.7 million write-down in Q4 2018), and restructuring costs related to mill closures and curtailments (\$3.3 million in Q4 2019, \$6.4 million in Q3 2019).

<sup>2</sup> Attributable to equity shareholders of the Company.

<sup>3</sup> Adjusted for after-tax impact of certain one-time items, including the aforementioned countervailing and anti-dumping duties expense and restructuring costs, as well as foreign exchange (gain) loss on long-term debt and duties recoverable, and (gain) loss on derivative financial instruments.

In contrast to the record-high lumber and pulp prices seen in 2018, weaker than anticipated global lumber and pulp demand for much of 2019 in combination with excess inventory levels gave rise to a sharp drop in market pricing for both lumber and pulp products in the current year. The deterioration in market conditions, in combination with ongoing fibre supply challenges and significant log cost increases in British Columbia ("BC") resulted in extensive temporary and permanent sawmill curtailments across BC, as well as summer curtailments at Canfor Pulp. On a more positive note, 2019 marked a year of transformational global diversification for Canfor with the acquisition of 70% of the Vida Group ("Vida") in early 2019, and the Company's continuing expansion in the US South, including the acquisition of Elliott Sawmilling Co., LLC ("Elliott"). For the 2019 year, the Company reported an operating loss of \$294.3 million and a net loss of \$2.10 per share, in sharp contrast to operating income of \$608.6 million and net income of \$2.78 per share reported for the year ended December 31, 2018.

For the fourth quarter of 2019, the Company reported an operating loss of \$59.6 million, halving the operating loss of \$120.3 million for the third quarter of 2019. These results reflected improved earnings in the lumber and pulp and paper segments as global lumber and pulp markets showed signs of bottoming out through the current quarter and supply and demand fundamentals improved at the end of the year.

Reported results for the fourth quarter of 2019 include a net duty expense of \$43.7 million, at a current cumulative effective countervailing duty ("CVD") and anti-dumping duty ("ADD") accrual rate of 29.24% (versus a combined cash deposit rate of 20.52%), compared to \$53.5 million reported in the third quarter of 2019 at the same combined rate. Cumulative cash deposits paid to December 31, 2019 were \$421.4 million.

In early 2020, the US Department of Commerce ("DOC") announced the preliminary results for the first period of review, which indicated that the Company's preliminary CVD cash deposit rate was 2.93% for 2017 and 2.61% for 2018 (versus a cash deposit rate of 13.24%), while the preliminary ADD cash deposit rate was 2.02% for the entire first period of review (versus a cash deposit rate of 7.28% and an estimated accrual rate of 2.6%). Upon finalization of these rates (anticipated in the third quarter of 2020), an additional recovery, estimated at \$140.6 million (US\$105.7

million), will be recognized in the Company's consolidated financial statements to reflect the difference between the combined accrual rate of 15.84% and DOC rates for the first period of review. In addition, once final, the Company's current combined cash deposit rate of 20.52% will be reset to the DOC rates based on the first period of review (currently estimated to be 4.63% based on the preliminary determination). Despite the reduced preliminary rates for the first period of review, no cash duties will be refunded to the Company until such time as the litigation regarding the imposition of CVD and ADD has been settled.

Reported results in the fourth quarter of 2019 also include a net \$19.9 million recovery in inventory write-down provisions and restructuring, mill closure and severance costs costs of \$3.3 million.

Adjusted operating income for the lumber segment for the fourth quarter of 2019 primarily reflected solid results from the Company's European Spruce/Pine/Fir ("SPF") operations, offset in part, by a more challenging quarter for the Company's US South operations, largely a result of seasonally weaker prices across most grades and the impact of capital related downtime at several of its sawmills. The Company's Western Canadian operations continued to be impacted by prolonged market-related challenges despite a modest upward trend in Western Spruce/Pine/Fir ("Western SPF") benchmark lumber prices, taking a further 115 million board feet of temporary production curtailments in that operating region during the current quarter.

Results for the fourth quarter of 2019 in the pulp and paper segment principally reflected higher pulp shipments and lower pulp unit manufacturing costs, both factors largely attributable to increased production at Canfor Pulp Products Inc.'s ("CPPI") Northern Bleached Softwood Kraft ("NBSK") pulp and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mills, following market-related pulp mill curtailments throughout the prior quarter. To a lesser degree, results also reflected modestly lower NBSK pulp unit sales realizations in the current quarter.

As mentioned, during the fourth quarter of 2019, global lumber market fundamentals showed a modest improvement, particularly in the US, where favourable macro-economic indicators, a moderate up-tick in North American home construction activity and steady demand in the repair and remodeling sector supported a measured recovery in lumber demand. US housing starts, on a seasonally adjusted basis, averaged 1,441,000 units, up 12% from the previous quarter. Single-family starts, which consume a higher proportion of lumber, were up 9%, while multi-family starts were up 20% compared to the third quarter of 2019. In Canada, housing starts averaged 202,000 units on a seasonally adjusted basis, down 10% from the previous quarter primarily due to low-trending multi-family starts in Eastern Canada. The modest improvement in overall demand was tempered by the impact of increased US South capacity and additional imports from Europe.

Offshore lumber demand for Western SPF lumber products remained muted through the current quarter, particularly in China, primarily reflecting the uncertainties resulting from the ongoing trade dispute between the US and China, while demand from Japan and other Asian markets remained steady. European lumber demand remained subdued through the current quarter, reflecting both Brexit uncertainty and weaker economic activity in several European countries, which together with increased supply of lower-cost fibre related to the spruce beetle outbreak in central Europe, resulted in continued pricing pressure for European SPF lumber.

The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price was up US\$24 per Mfbm, or 7%, from the previous quarter, at US\$380 per Mfbm, with similar increases also seen across most Western SPF wider-width dimensions. As a result, Western SPF lumber unit sales realizations also experienced a moderate up-tick quarter-over-quarter, further aided by a higher-value sales mix.

Southern Yellow Pine ("SYP") lumber unit sales realizations were modestly lower than the prior quarter as a relatively flat SYP East 2x4 #2 price, at US\$406 per Mfbm, combined with more pronounced declines in certain wider SYP dimensions.

The average European indicative SPF lumber benchmark price (an internally generated benchmark based on delivered price to the largest continental market), at 3,540 Swedish Krona ("SEK") per Mfbm, was down SEK 112 per Mfbm, or 3%, from the previous quarter. The Company's European SPF unit sales realizations for the fourth quarter of 2019 were moderately lower than the previous quarter reflecting this decline in the European benchmark pricing.

Total lumber shipments of 1.22 billion board feet were broadly in line with the previous quarter, principally reflecting increased production in Western Canada and at the Company's European operations in the current quarter, partially offset by a build in inventories in Western Canada arising from an eight-day rail strike later in the period.

Total lumber production, at 1.25 billion board feet, was up 6% from the previous quarter largely reflecting reduced market-related downtime in BC and increased operating days at the Company's European operations, following the

seasonal downtime taken in the prior period. Production in the US South was down slightly as improved productivity was offset by capital-related downtime at the Company's Camden and Conway sawmills in the current quarter.

Lumber unit manufacturing costs in the fourth quarter of 2019 were broadly in line with the previous quarter, as the incremental effect of lower production volumes in the US South, was largely offset by lower European lumber unit manufacturing costs, reflecting a combination of log cost declines (correlated with European SPF lumber prices) and the benefit of lower unit fixed costs due to increased operating days in the current period. Log costs in Western Canada and the US South remained broadly in line with the previous quarter.

In June 2019, the Company announced its agreement to sell its forest tenure associated with its Vavenby sawmill to Interfor. Final approval and completion of the sale is currently anticipated in the first quarter of 2020.

Global pulp prices remained at depressed levels through the fourth quarter of 2019, with weak pricing in Asia spilling over to North America and Europe as the quarter progressed. Purchasing activity from China picked up during the quarter, but elsewhere demand remained weak, particularly in Europe, contributing to a slight increase in global inventory levels by year end to 37 days of supply. US-dollar NBSK pulp list prices to China averaged US\$588 per tonne, broadly in line with the prior quarter, reflecting the aforementioned demand and supply factors. CPPI's NBSK pulp unit sales realizations were modestly lower than the prior quarter, principally reflecting lower prices to North America, where list prices (before discounts) declined US\$55 per tonne, or 5%, quarter-over-quarter. BCTMP unit sales realizations showed a modest increase from the previous quarter as BCTMP prices edged upwards in the latter part of the quarter.

Energy revenues increased quarter-over-quarter, principally reflecting seasonally higher energy prices combined with an increase in operating days in the current quarter, due to the pulp mill downtime taken in the summer months.

Pulp production was 286,000 tonnes for the fourth quarter of 2019, up 112,000 tonnes, or 64%, from the previous quarter, largely reflecting phased summer curtailments taken in the previous quarter, offset in part by an extended market-related curtailment in early October at CPPI's Prince George NBSK pulp mill ("PG Pulp mill"). To a lesser extent, improved productivity at CPPI's PG Pulp mill and at its Taylor BCTMP mill, which set a new record-high for production in the current quarter, largely offset kiln-related operational disruptions at CPPI's Northwood and Intercontinental pulp mills in December.

CPPI's pulp shipments totaled 267,000 tonnes, up 54,000 tonnes, or 25%, from the previous quarter, principally reflecting the aforementioned increase in pulp production quarter-over-quarter, offset in part by a rebuild of pulp inventories to more normal levels in the current quarter after a material drawdown in the previous quarter.

Pulp unit manufacturing costs were down significantly from the prior quarter, primarily reflecting increased production offset, in part, by seasonally higher energy costs. Fibre costs were slightly lower than the previous period, principally driven by lower market-based prices for sawmill residual chips (linked to falling Canadian dollar NBSK pulp sales realizations), which more than offset an increased proportion of higher-cost whole log chips, reflecting ongoing sawmill-related fibre supply disruptions.

Looking ahead, the recovery in demand in the US housing sector experienced late in the fourth quarter of 2019 is anticipated to continue into the first half of 2020, in part reflecting strong US housing starts coupled with seasonally stronger demand during the traditionally busy spring building season, steady projected demand in the repair and remodeling sector and growing demand for mass timber. Increased supply into the North American market is projected to somewhat temper North American lumber prices for 2020, reflecting the combined impacts of incremental European lumber imports into the US and further incremental capacity coming online in the US South. For the Company's offshore lumber markets in Asia, particularly Japan, demand is anticipated to remain stable through 2020 and prices are projected to return to more normalized levels. In Europe, pricing in the first quarter of 2020 is anticipated to remain broadly in line with the fourth quarter of 2019, with a modest up-tick in pricing projected during the second quarter of 2020, reflecting improved demand.

While global softwood kraft pulp markets are projected to remain fairly challenging for the first part of 2020, market conditions and prices should gradually improve through the balance of the year as global inventories become more in-line with demand. The potential impact of the emerging coronavirus on global pulp demand, particularly from China, is uncertain, and CPPI continues to monitor the situation. Bleached kraft paper demand is currently anticipated to stabilize in the first half of 2020 as inventories within the market return to more normalized levels. Given the fibre dynamics in the BC Interior, fibre costs are projected to remain under pressure, particularly for incremental pulp log supply. On a

more positive note, however, as a result of additional sawmill residual and pulp log fibre supply secured in the latter part of 2019, CPPI is not currently anticipating any material fibre-related curtailments in 2020.

CPPI has no maintenance outages planned for the first quarter of 2020. A maintenance outage is currently planned at the Northwood NBSK pulp mill in the second quarter of 2020 with a projected 30,000 tonnes of reduced NBSK pulp production. In addition, maintenance outages are scheduled at the Intercontinental NBSK pulp mill and the Taylor BCTMP mill in the third quarter of 2020 with a projected 10,000 tonnes of reduced NBSK pulp production and a projected 5,000 tonnes of reduced BCTMP production, respectively.

Refer to the Company's annual Management's Discussion and Analysis for further discussion on the Company's results for the fourth quarter of 2019 on page 34.



**Conrad A. Pinette**  
Chairman



**Don B. Kayne**  
President and Chief Executive Officer

## Canfor Corporation Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)	<b>As at December 31, 2019</b>	As at December 31, 2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 60.1	\$ 252.7
Accounts receivable - Trade	259.7	182.1
- Other	41.3	52.4
Income taxes receivable	112.5	32.5
Inventories (Note 3)	803.9	762.5
Prepaid expenses and other	64.0	67.1
Assets held for sale (Note 8)	69.0	-
<b>Total current assets</b>	<b>1,410.5</b>	<b>1,349.3</b>
<b>Property, plant and equipment</b>	<b>1,974.5</b>	<b>1,607.2</b>
<b>Right-of-use assets</b> (Note 4(a))	<b>68.5</b>	<b>-</b>
<b>Timber licenses</b>	<b>445.7</b>	<b>504.1</b>
<b>Goodwill and other intangible assets</b> (Note 14(b))	<b>447.3</b>	<b>268.3</b>
<b>Long-term investments and other</b> (Note 5)	<b>173.7</b>	<b>110.4</b>
<b>Retirement benefit surplus</b> (Note 7)	<b>5.9</b>	<b>4.9</b>
<b>Deferred income taxes, net</b>	<b>0.9</b>	<b>0.9</b>
<b>Total assets</b>	<b>\$ 4,527.0</b>	<b>\$ 3,845.1</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 478.4	\$ 458.9
Operating loans (Note 6(a))	382.0	-
Current portion of deferred reforestation obligations	51.0	52.9
Current portion of long-term debt (Note 6(b))	13.0	0.4
Other current liability (Note 14(a))	13.0	-
Current portion of lease obligations (Note 4(b))	21.3	-
Income taxes payable	5.5	-
Liabilities held for sale (Note 8)	3.3	-
<b>Total current liabilities</b>	<b>967.5</b>	<b>512.2</b>
<b>Long-term debt</b> (Note 6(b))	<b>681.7</b>	<b>408.0</b>
<b>Retirement benefit obligations</b> (Note 7)	<b>237.0</b>	<b>254.7</b>
<b>Lease obligations</b> (Note 4(b))	<b>50.9</b>	<b>-</b>
<b>Deferred reforestation obligations</b>	<b>56.3</b>	<b>63.9</b>
<b>Other long-term liabilities</b> (Notes 8 and 14(b))	<b>32.9</b>	<b>24.6</b>
<b>Put liability</b> (Notes 9 and 14(b))	<b>111.9</b>	<b>-</b>
<b>Deferred income taxes, net</b>	<b>319.9</b>	<b>241.8</b>
<b>Total liabilities</b>	<b>\$ 2,458.1</b>	<b>\$ 1,505.2</b>
<b>EQUITY</b>		
Share capital	\$ 987.9	\$ 987.9
Contributed surplus and other equity (Note 14(b))	(82.8)	31.9
Retained earnings	674.3	931.1
Accumulated other comprehensive income	65.9	105.5
<b>Total equity attributable to equity shareholders of the Company</b>	<b>1,645.3</b>	<b>2,056.4</b>
Non-controlling interests	423.6	283.5
<b>Total equity</b>	<b>\$ 2,068.9</b>	<b>\$ 2,339.9</b>
<b>Total liabilities and equity</b>	<b>\$ 4,527.0</b>	<b>\$ 3,845.1</b>

### Subsequent Event (Note 15)

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

APPROVED BY THE BOARD



Director, R.S. Smith



Director, C.A. Pinette

## Canfor Corporation

### Condensed Consolidated Statements of Income (Loss)

(millions of Canadian dollars, except per share data, unaudited)	3 months ended December 31,		12 months ended December 31,	
	<b>2019</b>	2018	<b>2019</b>	2018
<b>Sales</b>	<b>\$ 1,105.2</b>	\$ 1,028.1	<b>\$ 4,658.3</b>	\$ 5,044.4
<b>Costs and expenses</b>				
Manufacturing and product costs	<b>831.0</b>	824.6	<b>3,581.5</b>	3,244.5
Freight and other distribution costs	<b>160.7</b>	145.1	<b>684.1</b>	643.7
Countervailing and anti-dumping duty expense, net (Note 15)	<b>43.7</b>	39.9	<b>178.7</b>	169.1
Amortization	<b>95.2</b>	70.0	<b>362.2</b>	270.5
Selling and administration costs	<b>30.9</b>	27.6	<b>124.9</b>	108.0
Restructuring, mill closure and severance costs (Note 8)	<b>3.3</b>	-	<b>21.2</b>	-
	<b>\$ 1,164.8</b>	\$ 1,107.2	<b>\$ 4,952.6</b>	\$ 4,435.8
<b>Operating income (loss)</b>	<b>(59.6)</b>	(79.1)	<b>(294.3)</b>	608.6
Finance expense, net	<b>(16.3)</b>	(7.6)	<b>(57.5)</b>	(26.0)
Foreign exchange gain (loss) on long-term debt	<b>4.7</b>	(6.9)	<b>6.8</b>	(10.9)
Foreign exchange gain (loss) on duties recoverable, net	<b>(0.8)</b>	4.6	<b>(3.1)</b>	6.1
Gain (loss) on derivative financial instruments (Note 9)	<b>(0.5)</b>	18.3	<b>(26.4)</b>	1.1
Other income, net	<b>7.6</b>	5.4	<b>9.6</b>	9.9
Net income (loss) before income taxes	<b>(64.9)</b>	(65.3)	<b>(364.9)</b>	588.8
Income tax recovery (expense) (Note 10)	<b>18.8</b>	19.3	<b>95.2</b>	(149.8)
<b>Net income (loss)</b>	<b>\$ (46.1)</b>	\$ (46.0)	<b>\$ (269.7)</b>	\$ 439.0
<b>Net income (loss) attributable to:</b>				
Equity shareholders of the Company	<b>\$ (39.1)</b>	\$ (52.4)	<b>\$ (263.0)</b>	\$ 354.9
Non-controlling interests	<b>(7.0)</b>	6.4	<b>(6.7)</b>	84.1
<b>Net income (loss)</b>	<b>\$ (46.1)</b>	\$ (46.0)	<b>\$ (269.7)</b>	\$ 439.0
<b>Net income (loss) per common share:</b> (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 11)	<b>\$ (0.31)</b>	\$ (0.42)	<b>\$ (2.10)</b>	\$ 2.78

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



**Canfor Corporation**  
**Condensed Consolidated Statements of Other Comprehensive Income (Loss)**

(millions of Canadian dollars, unaudited)	3 months ended December 31,		12 months ended December 31,	
	<b>2019</b>	2018	<b>2019</b>	2018
<b>Net income (loss)</b>	\$ (46.1)	\$ (46.0)	\$ (269.7)	\$ 439.0
<b>Other comprehensive income (loss)</b>				
Items that will not be recycled through net income (loss):				
Defined benefit plan actuarial gains (losses) (Note 7)	5.3	(12.4)	16.2	6.9
Income tax recovery (expense) on defined benefit plan actuarial losses/gains (Note 10)	(1.4)	3.3	(4.4)	(1.9)
	<b>3.9</b>	(9.1)	<b>11.8</b>	5.0
Items that may be recycled through net income (loss):				
Foreign exchange translation of foreign operations, net of tax	7.6	33.6	(39.6)	50.4
Other comprehensive income (loss), net of tax	<b>11.5</b>	24.5	<b>(27.8)</b>	55.4
<b>Total comprehensive income (loss)</b>	<b>\$ (34.6)</b>	\$ (21.5)	<b>\$ (297.5)</b>	\$ 494.4
<b>Total comprehensive income (loss) attributable to:</b>				
Equity shareholders of the Company	\$ (27.6)	\$ (28.4)	\$ (294.8)	\$ 408.5
Non-controlling interests	(7.0)	6.9	(2.7)	85.9
<b>Total comprehensive income (loss)</b>	<b>\$ (34.6)</b>	\$ (21.5)	<b>\$ (297.5)</b>	\$ 494.4

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 December 31,		12 months ended December 31,	
	<b>2019</b>	2018	<b>2019</b>	2018
<b>Share capital</b>				
Balance at beginning of period	\$ 987.9	\$ 996.6	\$ 987.9	\$ 1,014.9
Share purchases (Note 11)	-	(8.7)	-	(27.0)
Balance at end of period	\$ 987.9	\$ 987.9	\$ 987.9	\$ 987.9
<b>Contributed surplus and other equity</b>				
Balance at beginning of period	\$ (86.7)	\$ 31.9	\$ 31.9	\$ 31.9
Put liability related to Vida acquisition (Notes 9 and 14(b))	3.9	-	(114.7)	-
Balance at end of period	\$ (82.8)	\$ 31.9	\$ (82.8)	\$ 31.9
<b>Retained earnings</b>				
Balance at beginning of period	\$ 709.5	\$ 1,005.0	\$ 931.1	\$ 629.5
Net income (loss) attributable to equity shareholders of the Company	(39.1)	(52.4)	(263.0)	354.9
Defined benefit plan actuarial gains (losses), net of tax	3.9	(9.6)	7.8	3.2
Impact of change in accounting policy (Notes 1 and 4)	-	-	(1.6)	-
Share purchases (Note 11)	-	(11.9)	-	(57.8)
Non-controlling interests arising from change in partnership interest in pellet plants	-	-	-	1.3
Balance at end of period	\$ 674.3	\$ 931.1	\$ 674.3	\$ 931.1
<b>Accumulated other comprehensive income</b>				
Balance at beginning of period	\$ 58.3	\$ 71.9	\$ 105.5	\$ 55.1
Foreign exchange translation of foreign operations, net of tax	7.6	33.6	(39.6)	50.4
Balance at end of period	\$ 65.9	\$ 105.5	\$ 65.9	\$ 105.5
<b>Total equity attributable to equity shareholders of the Company</b>	<b>\$ 1,645.3</b>	<b>\$ 2,056.4</b>	<b>\$ 1,645.3</b>	<b>\$ 2,056.4</b>
<b>Non-controlling interests</b>				
Balance at beginning of period	\$ 440.8	\$ 345.2	\$ 283.5	\$ 269.6
Net income (loss) attributable to non-controlling interests	(7.0)	6.4	(6.7)	84.1
Defined benefit plan actuarial gains attributable to non-controlling interests, net of tax	-	0.5	4.0	1.8
Distributions to non-controlling interests	(10.2)	(68.6)	(27.8)	(74.5)
Impact of change in accounting policy (Notes 1 and 4)	-	-	(0.1)	-
Acquisition of non-controlling interests (Note 14(b))	-	-	170.7	-
Non-controlling interests arising from change in partnership interest in pellet plants	-	-	-	2.5
Balance at end of period	\$ 423.6	\$ 283.5	\$ 423.6	\$ 283.5
<b>Total equity</b>	<b>\$ 2,068.9</b>	<b>\$ 2,339.9</b>	<b>\$ 2,068.9</b>	<b>\$ 2,339.9</b>

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

## Canfor Corporation

### Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended December 31,		12 months ended December 31,	
	<b>2019</b>	2018	<b>2019</b>	2018
<b>Cash generated from (used in):</b>				
<b>Operating activities</b>				
Net income (loss)	\$ (46.1)	\$ (46.0)	\$ (269.7)	\$ 439.0
Items not affecting cash:				
Amortization	95.2	70.0	362.2	270.5
Income tax expense (recovery)	(18.8)	(19.3)	(95.2)	149.8
Long-term portion of deferred reforestation obligations	6.1	7.1	(8.9)	(0.3)
Foreign exchange (gain) loss on long-term debt	(4.7)	6.9	(6.8)	10.9
Foreign exchange (gain) loss on duty deposits recoverable, net (Note 5)	0.8	(4.6)	3.1	(6.1)
Adjustment to accrued duties (Note 15)	10.4	10.1	41.3	(25.8)
Changes in mark-to-market value of derivative financial instruments (Note 9)	0.8	(18.7)	16.5	(19.1)
Employee future benefits expense	2.9	2.7	10.9	11.7
Restructuring, mill closure and severance costs (Note 8)	3.3	-	21.2	-
Finance expense, net	16.3	7.6	57.5	26.0
Other, net	0.4	6.2	(0.4)	12.9
Restructuring, mill closure and severance costs paid (Note 8)	(3.5)	-	(12.0)	-
Defined benefit plan contributions, net	(5.5)	(7.0)	(21.9)	(28.2)
Income taxes paid, net	(4.0)	(68.4)	(11.5)	(222.4)
	<b>53.6</b>	(53.4)	<b>86.3</b>	618.9
Net change in non-cash working capital (Note 12)	<b>73.3</b>	(53.7)	<b>114.4</b>	(82.8)
	<b>126.9</b>	(107.1)	<b>200.7</b>	536.1
<b>Financing activities</b>				
Change in operating bank loans (Note 6(a))	(59.1)	-	365.0	-
Proceeds from long-term debt, net (Note 6(b))	-	-	281.7	-
Repayment of long-term debt (Note 6(b))	(0.6)	(0.1)	(1.2)	(0.4)
Payment of lease obligations (Note 4(b))	(6.0)	-	(17.9)	-
Finance expenses paid	(15.4)	(8.2)	(49.7)	(23.3)
Share purchases (Note 11)	-	(24.3)	-	(88.5)
Acquisition of non-controlling interests	-	-	(0.2)	(0.1)
Cash distributions paid to non-controlling interests	(10.2)	(68.6)	(27.8)	(74.5)
	<b>(91.3)</b>	(101.2)	<b>549.9</b>	(186.8)
<b>Investing activities</b>				
Additions to property, plant and equipment, timber, and intangible assets, net	(69.7)	(140.2)	(302.8)	(401.4)
Proceeds on disposal of property, plant, and equipment	0.8	1.0	3.0	2.6
Consideration paid for acquisition of Vida, net of cash acquired (Note 14(b))	-	-	(562.3)	-
Vida consideration holdback (Note 14(b))	-	-	(9.7)	-
First phase investment in Elliott (Note 14(a))	(4.1)	-	(56.1)	-
Term loan to Elliott (Note 14(a))	-	-	(7.7)	-
Other, net	0.6	1.8	(9.0)	5.4
	<b>(72.4)</b>	(137.4)	<b>(944.6)</b>	(393.4)
Foreign exchange gain on cash and cash equivalents	0.6	7.1	1.4	8.6
<b>Decrease in cash and cash equivalents*</b>	<b>(36.2)</b>	(338.6)	<b>(192.6)</b>	(35.5)
Cash and cash equivalents at beginning of period*	96.3	591.3	252.7	288.2
<b>Cash and cash equivalents at end of period*</b>	<b>\$ 60.1</b>	\$ 252.7	<b>\$ 60.1</b>	\$ 252.7

\*Cash and cash equivalents include cash on hand less unrepresented cheques.

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

## **Canfor Corporation**

### **Notes to the Condensed Consolidated Financial Statements**

Three and twelve months ended December 31, 2019 and 2018  
(millions of Canadian dollars unless otherwise noted, unaudited)

#### **1. Basis of Preparation**

These condensed consolidated interim financial statements (the “financial statements”) include the accounts of Canfor Corporation and its subsidiary entities, including Canfor Pulp Products Inc. (“CPPI”), as well as the Vida Group of Sweden (“Vida”) from the February 28, 2019 acquisition date, hereinafter referred to as “Canfor” or “the Company”.

These financial statements do not include all of the disclosures required by International Financial Reporting Standards (“IFRS”) for interim or annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in the Company’s Annual Report for the year ended December 31, 2019, available at [www.canfor.com](http://www.canfor.com) or [www.sedar.com](http://www.sedar.com).

Certain comparative amounts for the prior period have been reclassified to conform to the current period’s presentation.

These financial statements were authorized for issue by the Company’s Board of Directors on February 20, 2020.

#### ***Change in Significant Accounting Policy***

Effective January 1, 2019, the Company has adopted IFRS 16 *Leases* (“IFRS 16”), which supersedes IAS 17 *Leases* (“IAS 17”) and related interpretations. Under IAS 17, leases were previously classified as either operating or financing for lessees based on an assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. As the Company’s leases were previously classified as operating, straight-line operating lease expense was recognized over the lease term in the comparative periods.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees, with a right-of-use asset (“ROU asset”) representing the Company’s right to use the underlying asset, and a lease obligation representing its obligation to make lease payments. Amortization expense for ROU assets and interest expense for lease obligations replaces the straight-line operating lease expense recognized under IAS 17.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Short-term and low-value recognition exemptions were applied, as well as certain practical expedients allowing for the use of hindsight to assess the lease term for contracts with extension options, the exclusion of initial direct costs from measurement of the ROU asset and the exclusion of leases with a term of less than one year remaining at the transition date.

The impact of transition is outlined under Note 4, with changes in accounting policies outlined below.

#### ***Policy applicable from January 1, 2019***

##### ***Lease Definition***

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An identified asset may be implicitly or explicitly specified in a contract, but must be physically distinct, and must not have the ability for substitution by a lessor. The Company has the right to control an identified asset if it obtains substantially all of its economic benefits and either pre-determines, or directs how and for what purpose the asset is used.

##### ***Measurement of Right-of-Use Assets and Lease Obligations***

At lease commencement, the Company recognizes a ROU asset and a lease obligation. The ROU asset is initially measured at cost, which comprises the initial amount of the lease obligation adjusted for any lease payments made at, or before, the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The ROU asset is subsequently amortized on a straight-line basis over the shorter of the term of the lease, or the useful life of the asset determined on the same basis as the Company’s property, plant and equipment. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease obligation.

The lease obligation is initially measured at the present value of lease payments remaining at the lease commencement date, discounted using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease obligation, when applicable, may comprise fixed payments, variable payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase, extension or termination option that the Company is reasonably certain to exercise.

The lease obligation is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease obligation is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset.

#### *Recognition Exemptions*

The Company has elected not to recognize ROU assets and lease obligations for short-term leases that have a lease term of twelve months or less, or for leases of low-value assets. Payments associated with these leases are recognized as an operating expense on a straight-line basis over the lease term within costs and expenses on the consolidated statement of income.

## **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. For example, 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**

<i>(millions of Canadian dollars, unaudited)</i>	<b>As at December 31, 2019</b>	As at December 31, 2018
Logs	\$ <b>185.5</b>	\$ 199.5
Finished products	<b>452.6</b>	389.3
Residual fibre	<b>38.7</b>	44.8
Materials and supplies	<b>127.1</b>	128.9
	<b>\$ 803.9</b>	\$ 762.5

The above inventory balances are stated at the lower of cost and net realizable value. For the three months ended December 31, 2019, a \$16.9 million inventory write-down recovery was recognized for the lumber segment (twelve months ended December 31, 2019 – net write-down recovery of \$8.6 million), resulting in an inventory provision for logs and lumber of \$28.1 million at December 31, 2019 (December 31, 2018 – provision of \$36.7 million).

For the three months ended December 31, 2019, a \$3.0 million inventory write-down recovery was recognized for the pulp and paper segment (twelve months ended December 31, 2019 – net write-down expense of \$10.7 million), resulting in an inventory provision for pulp logs, finished products and raw materials of \$10.7 million at December 31, 2019 (December 31, 2018 – nil).

Inventory expensed in 2019 and 2018 includes manufacturing and product costs and amortization.

## **4. Leases**

The Company's leased assets include land, buildings, vehicles, machinery and equipment. Effective January 1, 2019, the Company adopted IFRS 16 as outlined in Note 1, recognizing \$46.1 million of ROU assets, \$48.3 million of lease obligations and deferred tax assets of \$0.6 million, with the difference of \$1.6 million recognized in retained earnings.

The following table reconciles the Company's lease commitments disclosed in the consolidated financial statements as at and for the year ended December 31, 2018, to the lease obligations recognized on initial application of IFRS 16:

(millions of Canadian dollars, unaudited)

Operating lease commitments at December 31, 2018	\$	52.1
Recognition exemptions for short-term and low-value leases		(0.9)
Discounted using the incremental borrowing rate at January 1, 2019		(6.5)
Lease remeasurements and other transitional adjustments		3.6
Lease obligations recognized at January 1, 2019	\$	48.3

Lease obligations were measured at the present value of remaining lease payments at the transition date, discounted at the Company's incremental borrowing rate. The weighted average incremental borrowing rate applied at January 1, 2019 was 4.3% for leases originating in Canada, and 5.1% for those originating in the US.

**(a) Right-of-Use Assets**

(millions of Canadian dollars, unaudited)	Land	Pulp and kraft paper mills	Solid wood operations	Logging assets and other equipment	Facilities and other	Total
<b>Cost</b>						
Balance at January 1, 2019	\$ 1.5	\$ 7.0	\$ 42.4	\$ 6.6	\$ 17.8	\$ 75.3
Additions and acquisitions	-	0.5	33.9	1.5	7.8	43.7
Disposal and transfers	-	-	(3.3)	(0.2)	(0.1)	(3.6)
Effect of movements in exchange rates	-	-	(0.8)	-	(0.2)	(1.0)
Balance at December 31, 2019	\$ 1.5	\$ 7.5	\$ 72.2	\$ 7.9	\$ 25.3	\$ 114.4
<b>Amortization</b>						
Balance at January 1, 2019	\$ (0.9)	\$ (3.7)	\$ (14.0)	\$ (1.7)	\$ (8.9)	\$ (29.2)
Amortization for the year	(0.2)	(1.3)	(12.1)	(2.0)	(3.2)	(18.8)
Disposal and transfers	-	-	1.7	0.1	0.1	1.9
Effect of movements in exchange rates	-	-	0.2	-	-	0.2
Balance at December 31, 2019	\$ (1.1)	\$ (5.0)	\$ (24.2)	\$ (3.6)	\$ (12.0)	\$ (45.9)
<b>Carrying Amounts</b>						
At January 1, 2019	\$ 0.6	\$ 3.3	\$ 28.4	\$ 4.9	\$ 8.9	\$ 46.1
<b>At December 31, 2019</b>	<b>\$ 0.4</b>	<b>\$ 2.5</b>	<b>\$ 48.0</b>	<b>\$ 4.3</b>	<b>\$ 13.3</b>	<b>\$ 68.5</b>

Amortization expense on right-of-use assets for the three and twelve months ended December 31, 2019 was \$6.2 million and \$18.8 million, respectively.

**(b) Lease Obligations**

Contractual, undiscounted cash flows associated with the Company's lease obligations are as follows:

(millions of Canadian dollars, unaudited)	<b>As at December 31, 2019</b>
Within one year	\$ 22.6
Between one and five years	54.9
Beyond five years	5.1
Total undiscounted lease obligations	\$ 82.6

Discounted lease obligations recognized on the Company's consolidated balance sheet are as follows:

(millions of Canadian dollars, unaudited)	<b>As at December 31, 2019</b>
Current	\$ 21.3
Non-Current	50.9
Total discounted lease obligations	\$ 72.2

Interest expense on lease obligations for the three and twelve months ended December 31, 2019 was \$1.1 million and \$3.3 million, respectively. Interest expense on lease obligations is included in finance expense, net.

Operating lease expenses relating to short-term and low-value leases not included in the measurement of lease obligations for the three and twelve months ended December 31, 2019, was \$0.1 million and \$4.5 million, respectively.

Variable lease expenses not included in the measurement of lease obligations for the three and twelve months ended December 31, 2019, was \$0.1 million and \$1.3 million, respectively.

For the three months ended December 31, 2019, total cash outflows for leases was \$6.2 million, including \$0.2 million for short-term and low-value leases, as well as variable lease expenses. For the twelve months ended December 31, 2019, total cash outflows for leases was \$23.7 million, including \$5.8 million for short-term and low-value leases, as well as variable lease expenses.

## 5. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)	<b>As at December 31, 2019</b>	As at December 31, 2018
Investment in Elliott (Note 14(a))	\$ 78.1	\$ -
Other investments	11.4	21.0
Duties deposits recoverable, net (Note 15)	32.4	76.6
Other deposits, loans, advances and long-term assets (Note 14(b))	51.8	12.8
	<b>\$ 173.7</b>	<b>\$ 110.4</b>

The 'Duty Deposits Recoverable, Net' balance represents US-dollar anti-dumping and countervailing duty cash deposits paid in excess of the calculated expense accrued at December 31, 2019 (Note 15).

A consideration holdback of \$9.7 million related to the acquisition of Vida is included in 'Other Deposits, Loan, Advances and Long-Term Assets' above at December 31, 2019 (Note 14(b)).

On April 4, 2019, Canfor entered into an agreement with a third party to provide Canfor with an annual fibre supply of approximately 125,000m<sup>3</sup> over a period of twenty-five years for \$19.5 million, which was paid on April 5, 2019 and is included in 'Other Deposits, Loan, Advances and Long-Term Assets' above at December 31, 2019.

## 6. Operating Loans and Long-Term Debt

### (a) Available Operating Loans

(millions of Canadian dollars, unaudited)	<b>As at December 31, 2019</b>	As at December 31, 2018
<b>Canfor (excluding Vida and CPPI)</b>		
Available operating loans:		
Operating loan facility	\$ 550.0	\$ 450.0
Revolving credit facility	100.0	-
Facilities for letters of credit	70.0	60.0
Total operating loan facilities	720.0	510.0
Operating loan facility drawn	(350.0)	-
Letters of credit	(65.2)	(57.4)
Total available operating loan facilities - Canfor	<b>\$ 304.8</b>	<b>\$ 452.6</b>
<b>Vida</b>		
Available operating loans:		
Operating loan facilities	\$ 71.0	\$ -
Overdraft facilities	21.5	-
Total operating loan facilities	92.5	-
Operating loan facilities drawn	(0.2)	-
Overdraft facilities drawn	(17.8)	-
Total available operating loan facilities - Vida	<b>\$ 74.5</b>	<b>\$ -</b>

(millions of Canadian dollars, unaudited)	<b>As at December 31, 2019</b>	As at December 31, 2018
<b>CPPI</b>		
Available operating loans:		
Operating loan facility	\$ 110.0	\$ 110.0
Letters of credit	(13.2)	(11.1)
Total operating loan facility	96.8	98.9
Operating loan facility drawn	(14.0)	-
Total available operating loan facility - CPPI	\$ 82.8	\$ 98.9
<b>Consolidated:</b>		
<b>Total operating loan facilities</b>	<b>\$ 922.5</b>	<b>\$ 620.0</b>
<b>Total available operating loan facilities</b>	<b>\$ 462.1</b>	<b>\$ 551.5</b>

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

On March 5, 2019, Canfor (excluding Vida and CPPI) entered into a committed revolving credit facility of \$100.0 million with a maturity date of February 28, 2020. On October 30, 2019, the maturity date of the committed revolving facility was extended to October 30, 2020. Terms of the revolving facility are largely consistent with Canfor's existing committed operating loan facility.

On September 30, 2019, Canfor (excluding Vida and CPPI) increased the principal of its committed operating loan facility by \$100.0 million to \$550.0 million, with a maturity date of January 2, 2024.

Canfor (excluding Vida and CPPI) has a separate facility to cover letters of credit. At December 31, 2019, \$62.7 million of letters of credit outstanding are covered under this facility with the balance of \$2.5 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 1.0% to 1.3%. Vida also has separate overdraft facilities with fixed interest rates ranging from 1.7% to 4.7%.

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

On September 30, 2019, the maturity date of CPPI's principal operating loan facility was extended from April 6, 2022 to April 6, 2023.

At December 31, 2019, the Company had total available undrawn operating loans of \$462.1 million, including the undrawn revolving facility and undrawn facilities for letters of credit.

Canfor and CPPI's operating loan facilities have certain financial covenants, including maximum debt to total capitalization ratios. Vida is also subject to certain financial covenants, including minimum equity and interest coverage ratios. As at December 31, 2019, 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) Long-Term Debt**

(millions of Canadian dollars, unaudited)	<b>As at December 31, 2019</b>	As at December 31, 2018
<b>Canfor (excluding Vida and CPPI)</b>		
CAD\$225.0 million, floating interest, repayable January 2, 2024	\$ 225.0	\$ 125.0
US\$200.0 million floating interest, repayable January 2, 2027	259.7	136.4
US\$100.0 million, fixed interest of 4.4%, repayable in three equal tranches on October 2, 2023, 2024 and 2025	129.9	136.4
Other (US\$7.7 million) <sup>1</sup>	9.9	10.6



(millions of Canadian dollars, unaudited)	<b>As at December 31, 2019</b>	As at December 31, 2018
<b>Vida</b>		
SEK 74.5 million, floating interest, repayable in instalments up to December 31, 2020	\$ 10.4	\$ -
SEK 14.0 million, floating interest, repayable in instalments up to April 30, 2022	2.0	-
SEK 2.4 million, floating interest, repayable in instalments up to August 31, 2024	0.3	-
SEK 3.3 million, floating interest, repayable in instalments up to April 30, 2022	0.5	-
AUD 7.8 million, floating interest, with no fixed maturity date	7.0	-
<b>CPPI</b>		
CAD \$50.0 million, floating interest, repayable September 30, 2022	50.0	-
Long-term debt at end of year	\$ 694.7	\$ 408.4
Less: Current portion	(13.0)	(0.4)
Long-term portion	\$ 681.7	\$ 408.0

<sup>1</sup> Amount relates to net financing for specific capital projects at Canfor's U.S. sawmills.

Canfor's long-term debt (excluding Vida) is unsecured. Vida's long-term debt is secured by its property, plant and equipment assets.

On December 14, 2018, Canfor (excluding Vida and CPPI) increased its Canadian dollar denominated floating interest rate term debt facility to \$225.0 million and extended its maturity date from September 28, 2022 to January 2, 2024. Canfor (excluding Vida and CPPI) also increased its US-dollar denominated floating rate term debt facility to US\$200.0 million on December 14, 2018 and extended its maturity date from September 28, 2025 to January 2, 2027.

On February 25, 2019, the Company drew the remaining \$100.0 million from its Canadian dollar floating interest rate term debt facility, and the remaining US\$100.0 million from its US-dollar floating interest rate term debt facility to finance the Vida and Elliott acquisitions (Note 14) and to service working capital requirements.

On September 30, 2019, CPPI entered into a new non-revolving term loan for \$50.0 million, repayable on September 30, 2022, with the calculation of interest and covenants consistent with CPPI's existing operating loan facility.

Canfor's borrowings (excluding Vida) feature similar financial covenants, including a maximum debt to total capitalization ratio. Vida's borrowings are subject to certain financial covenants, including minimum equity and interest coverage ratios. As at December 31, 2019, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their long-term debt.

### ***Fair value of total long-term debt***

At December 31, 2019, the fair value of the Company's long-term debt is \$700.6 million (December 31, 2018 - \$402.9 million), determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

## **7. Employee Future Benefits**

The Company has several funded and unfunded defined benefit pension plans and defined contribution plans that provide benefits to substantially all salaried employees and certain hourly employees. Benefits are also provided to certain salaried and hourly employees through the Company's non-pension post-retirement benefit plans, which are unfunded. The defined benefit pension plans are based on years of service and final average salary. Canfor's other non-pension post-retirement benefit plans are non-contributory and include a range of health care and other benefits. Canfor also provides pension bridge benefits to certain eligible former employees.

### **Medical Services Plan Changes**

On May 15, 2019, *Bill 20 – Medicare Protection Amendment Act, 2019* ("Bill 20"), received Royal Assent. Bill 20 eliminates Medical Services Plan ("MSP") premiums, effective January 1, 2020. This change was recognized in actuarial financial assumptions in the second quarter of 2019 and resulted in a \$31.9 million pre-tax reduction of the non-pension post-retirement benefit obligation, and a corresponding gain recognized in other comprehensive income (loss). The 50% reduction in MSP in the second quarter of 2019, when combined with the initial 50% reduction recognized in the fourth quarter of 2017, resulted in a gain of \$95.6 million, or \$0.76 per common share (\$70.5 million after tax, or \$0.56 per common share), reflected in the Company's non-pension post-retirement benefit obligation.

## Significant assumptions

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

	December 31, 2019		December 31, 2018	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
Discount rate	3.0%	3.0%	3.6%	3.6%
Rate of compensation increases	3.0%	n/a	3.0%	n/a
Initial medical cost trend rate	n/a	5.5%	n/a	5.5%
Ultimate medical cost trend rate	n/a	4.5%	n/a	4.5%
Year ultimate rate is reached	n/a	2022	n/a	2022

## 8. Restructuring Provision and Assets Held for Sale

On June 3, 2019, the Company announced that it had entered into an agreement to sell its forest tenure associated with its Vavenby sawmill located in British Columbia ("BC") to Interfor Corporation for proceeds of \$60.0 million. Also on June 3, 2019, the Company announced its intention to permanently close the Vavenby sawmill following the sale, which is currently anticipated to close in the first quarter of 2020, subject to customary closing conditions, including the consent of the Minister of Forests.

During the second quarter of 2019, as a result of the planned closure and pending sale of Vavenby, the Vavenby sawmill assets and forest tenure (together, "Vavenby disposal group"), were reclassified to 'Assets Held for Sale' and the reforestation provision associated with the forest tenure was reclassified to 'Liabilities Held for Sale' on the Company's consolidated balance sheet.

On November 13, 2019, Canfor entered into a separate agreement with a third party to sell certain Vavenby sawmill assets, not included within the existing Vavenby disposal group, as well as one other non-operating asset for total proceeds of \$9.7 million. The Company expects the sale to close in conjunction with the aforementioned forest tenure sale to Interfor. Accordingly, during the three months ended December 31, 2019, these additional assets totalling \$11.1 million were reclassified to assets held for sale and an additional \$0.5 million was reclassified to liabilities held for sale.

Upon initial classification as held for sale, the carrying values of the assets were assessed for impairment in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, with no adjustments required.

At December 31, 2019, assets and liabilities held for sale were comprised of the following:

	<b>As at December 31, 2019</b>
<i>(millions of Canadian dollars, unaudited)</i>	
Inventories	\$ 2.6
Prepaid expenses and other	2.8
Property, plant and equipment	19.9
Timber licenses	43.7
Assets held for sale	\$ 69.0
Deferred reforestation obligation	2.8
Asset retirement obligation	0.5
Liabilities held for sale	\$ 3.3

On July 18, 2019, the Company announced further capacity reductions at two of its BC sawmills. The Mackenzie sawmill was indefinitely curtailed effective July 18, 2019, and one of two shifts was permanently eliminated at the Isle Pierre sawmill effective September 20, 2019.

Due to the aforementioned closure of the Vavenby sawmill and indefinite curtailments, restructuring, mill closure and severance costs of \$3.3 million and \$21.2 million have been recognized for the three and twelve months ended December 31, 2019, respectively.

The following table provides a reconciliation of the restructuring provision for the year ended December 31, 2019:

(millions of Canadian dollars, unaudited)	<b>2019</b>
Initial accrued liability at June 30, 2019	\$ <b>11.5</b>
Additional costs accrued	<b>9.7</b>
Paid during the year	<b>(12.0)</b>
Accrued liability at end of year	\$ <b>9.2</b>
Less: Current portion	<b>(7.6)</b>
Long-term portion	\$ <b>1.6</b>

Of the total restructuring costs, \$7.6 million is included in 'Accounts Payable and Accrued Liabilities' with \$1.6 million recognized in 'Other Long-Term Liabilities' on the Company's consolidated balance sheet as at December 31, 2019.

## 9. Financial Instruments

Canfor's cash and cash equivalents, trade and other accounts receivable, certain long-term investments and advances, accounts payable and accrued liabilities, other liabilities, operating loans, and long-term debt are classified as measured at amortized cost in accordance with IFRS 9 *Financial Instruments* ("IFRS 9"). The carrying amounts of these instruments, excluding long-term debt, approximate fair value at December 31, 2019 and December 31, 2018.

Derivative instruments and investments in debt and equity securities (excluding associates accounted for under the equity method) are classified as measured at fair value through profit or loss. The put liability is measured initially at fair value with subsequent gains and losses recognized in other equity. IFRS 13 *Fair Value Measurement*, requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

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

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

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

The following table summarizes Canfor's financial instruments measured at fair value at December 31, 2019 and December 31, 2018, 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	<b>As at December 31, 2019</b>	As at December 31, 2018
<b>Financial assets measured at fair value</b>			
Investments	Level 1	\$ <b>10.7</b>	\$ 20.1
Derivative financial instruments	Level 2	<b>0.3</b>	18.8
		<b>\$ 11.0</b>	\$ 38.9
<b>Financial liabilities measured at fair value</b>			
Derivative financial instruments	Level 2	\$ -	\$ 0.6
Put liability (Note 14(b))	Level 3	<b>111.9</b>	-
		<b>\$ 111.9</b>	\$ 0.6

The following table summarizes the gains (losses) on derivative financial instruments recognized in the consolidated statement of income (loss) for the three and twelve months ended December 31, 2019 and December 31, 2018:

(millions of Canadian dollars, unaudited)	3 months ended December 31,		12 months ended December 31,	
	<b>2019</b>	2018	<b>2019</b>	2018
Lumber futures	\$ <b>0.4</b>	\$ (0.5)	\$ <b>5.7</b>	\$ (17.9)
Foreign exchange future contracts	<b>(0.9)</b>	18.8	<b>(32.1)</b>	18.8
Energy derivatives	-	-	-	0.2
Gain (loss) on derivative financial instruments	<b>\$ (0.5)</b>	\$ 18.3	<b>\$ (26.4)</b>	\$ 1.1

During the three and twelve months ended December 31, 2019, a gain of \$3.9 million was recognized in 'Other Equity' on the Company's consolidated balance sheet following remeasurement of the put liability (Note 14(b)).

## 10. Income Taxes

The components of income tax recovery (expense) are as follows:

(millions of Canadian dollars, unaudited)	3 months ended December 31,		12 months ended December 31,	
	2019	2018	2019	2018
Current	\$ 13.8	\$ 26.3	\$ 82.8	\$ (132.9)
Deferred	5.0	(7.0)	12.4	(16.9)
Income tax recovery (expense)	\$ 18.8	\$ 19.3	\$ 95.2	\$ (149.8)

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

(millions of Canadian dollars, unaudited)	3 months ended December 31,		12 months ended December 31,	
	2019	2018	2019	2018
Income tax recovery (expense) at statutory rate – 27% (2018 – 27%)	\$ 17.5	\$ 17.6	\$ 98.5	\$ (159.0)
Add (deduct):				
Non-taxable income related to non-controlling interests	-	-	0.1	0.2
Entities with different income tax rates and other tax adjustments	(0.4)	1.0	2.8	8.3
Permanent difference from capital gains and losses and other non-deductible items	1.7	0.7	(6.2)	0.7
Income tax recovery (expense)	\$ 18.8	\$ 19.3	\$ 95.2	\$ (149.8)

In addition to the amounts recorded to net income (loss), a tax expense of \$1.4 million was recorded to other comprehensive income (loss) for the three months ended December 31, 2019 in relation to the actuarial gains on defined benefit plans (three months ended December 31, 2018 – recovery of \$3.3 million). For the twelve months ended December 31, 2019, the tax expense was \$4.4 million (twelve months ended December 31, 2018 – \$1.9 million).

Also included in other comprehensive income (loss) for the three months ended December 31, 2019 was a tax recovery of \$0.8 million related to foreign exchange differences on translation of investments in foreign operations (three months ended December 31, 2018 - expense of \$2.0 million). For the twelve months ended December 31, 2019, a tax recovery of \$1.9 million was recognized (twelve months ended December 31, 2018 – expense of \$3.2 million).

## 11. Earnings (Loss) Per Share and Normal Course Issuer Bid

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

	3 months ended December 31,		12 months ended December 31,	
	2019	2018	2019	2018
Weighted average number of common shares	125,219,400	125,960,938	125,219,400	127,742,297

On March 4, 2019, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,260,970 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2019. The renewed normal course issuer bid is set to expire on March 6, 2020. The Company does not currently intend to renew the normal course issuer bid following its expiry.

During the three and twelve months ended December 31, 2019, the Company did not purchase any common shares.

During the three months ended December 31, 2018, the Company purchased 1,123,490 shares for \$20.6 million (an average price of \$18.33 per common share) and paid an additional \$3.7 million in relation to shares purchased during the third quarter of 2018. For the twelve months ended December 31, 2018, the Company purchased 3,425,580 shares for \$84.8 million (an average price of \$24.76 per common share) and paid an additional \$3.7 million in relation to shares purchased in 2017.

As at December 31, 2019 and February 20, 2020 there were 125,219,400 common shares of the Company outstanding, and Canfor's ownership interest in CPPI was 54.8% (December 31, 2018 – 54.8%).

## 12. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended December 31,		12 months ended December 31,	
	2019	2018	2019	2018
Accounts receivable	\$ 58.0	\$ 66.4	\$ 65.3	\$ 25.5
Inventories	9.8	(85.2)	144.3	(126.5)
Prepaid expenses and other	14.5	9.6	1.3	(11.0)
Accounts payable and accrued liabilities, current portion of deferred reforestation obligations and other current liabilities	(9.0)	(44.5)	(96.5)	29.2
<b>Net change in non-cash working capital</b>	<b>\$ 73.3</b>	<b>\$ (53.7)</b>	<b>\$ 114.4</b>	<b>\$ (82.8)</b>

## 13. Segment Information

Canfor has two reportable segments (lumber segment and pulp and paper segment), which offer different products and are managed separately because they require different production processes and marketing strategies. Sales between segments are accounted for at prices that approximate fair value. These include sales of residual fibre from the lumber segment to the pulp and paper segment for use in the pulp production process. The Company's panels business does not meet the criteria to be reported fully as a separate segment and is included in 'Unallocated & Other'.

The primary business activities of Vida, acquired on February 28, 2019 (Note 14(b)), include the manufacturing and sale of various grades, widths and lengths of lumber, wood chips and wood pellets, which is consistent with Canfor's lumber segment. The results of these businesses are therefore reported in the Company's lumber segment:

(millions of Canadian dollars, unaudited)	Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment	Consolidated
<b>3 months ended December 31, 2019</b>					
<b>Sales from contracts with customers</b>	\$ 857.8	\$ 247.4	\$ -	\$ -	\$ 1,105.2
<b>Sales to other segments</b>	50.6	0.1	-	(50.7)	-
<b>Operating income (loss)</b>	(27.5)	(23.5)	(8.6)	-	(59.6)
<b>Amortization</b>	71.2	23.6	0.4	-	95.2
<b>Capital expenditures<sup>2</sup></b>	43.2	27.1	(0.6)	-	69.7
3 months ended December 31, 2018					
Sales from contracts with customers	\$ 738.4	\$ 289.7	\$ -	\$ -	\$ 1,028.1
Sales to other segments	64.1	-	-	(64.1)	-
Operating income (loss)	(87.7)	15.6	(7.0)	-	(79.1)
Amortization	49.5	20.5	-	-	70.0
Capital expenditures <sup>2</sup>	98.8	42.5	(1.1)	-	140.2
<b>12 months ended December 31, 2019</b>					
<b>Sales from contracts with customers</b>	\$ 3,570.6	\$ 1,087.7	\$ -	\$ -	\$ 4,658.3
<b>Sales to other segments</b>	221.3	0.2	-	(221.5)	-
<b>Operating income (loss)</b>	(227.4)	(31.0)	(35.9)	-	(294.3)
<b>Amortization</b>	268.3	92.9	1.0	-	362.2
<b>Capital expenditures<sup>2</sup></b>	198.2	103.0	1.6	-	302.8
<b>Identifiable assets</b>	<b>3,373.3</b>	<b>884.7</b>	<b>269.0</b>	-	<b>4,527.0</b>
12 months ended December 31, 2018					
Sales from contracts with customers	\$ 3,670.4	\$ 1,374.0	\$ -	\$ -	\$ 5,044.4
Sales to other segments	249.5	0.3	-	(249.8)	-
Operating income (loss)	390.5	246.6	(28.5)	-	(608.6)
Amortization	190.8	79.6	0.1	-	270.5
Capital expenditures <sup>2</sup>	272.3	120.5	8.6	-	401.4
Identifiable assets	2,499.4	919.3	426.4	-	3,845.1

<sup>2</sup> Capital expenditures represent cash paid for capital assets during the periods, excluding assets purchased as part of the acquisition of the Vida Group (Note 14(b)). Pulp & Paper includes capital expenditures by CPPI that were partially financed by government grants.

## Geographic information

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

(millions of Canadian dollars, unaudited)	3 months ended December 31,		12 months ended December 31,	
	2019	2018	2019	2018
Sales by location of customer				
Canada	\$ 116.5	\$ 138.1	\$ 478.2	\$ 592.6
United States	548.5	526.5	2,294.5	2,734.8
Europe	176.4	21.7	665.8	95.9
Asia	241.7	316.8	1,097.9	1,514.4
Other	22.1	25.0	121.9	106.7
	\$ 1,105.2	\$ 1,028.1	\$ 4,658.3	\$ 5,044.4

## 14. Acquisitions

### (a) Elliott Sawmilling Co., LLC

On May 31, 2019, the Company completed the first of a two-phase purchase of Elliott Sawmilling Co., LLC ("Elliott"), located in Estill, South Carolina, for an aggregate purchase price of US\$110.5 million, plus a working capital adjustment of US\$3.1 million. In accordance with IAS 28 *Investments in Associates and Joint Ventures*, the first phase purchase of 49% was recognized as an equity investment, accounted for under the equity method, consisting of an initial cash payment of \$52.0 million (US\$38.5 million), a subsequent working capital payment of \$4.1 million (US\$3.1 million), and an additional \$21.1 million (US\$15.6 million) included as an 'Other Current Liability' on Canfor's consolidated balance sheet at the initial investment date.

As part of the first phase of the transaction, Canfor advanced \$8.5 million (US\$6.2 million) to Elliott in the form of a term loan facility during the second quarter of 2019. The term loan facility has an interest rate equal to the floating rate on Canfor's principal committed operating loan facility, plus 1.0%, and is secured by Elliott's operating assets. The term loan receivable has been offset against the balance of the above mentioned 'Other Current Liability'. As at December 31, 2019, Elliott has repaid \$0.8 million (US\$0.6 million) of the term loan.

After adjusting for changes in foreign exchange between the initial investment date and December 31, 2019, a net other current liability of \$13.0 million (US\$10.0 million) was recorded on Canfor's consolidated balance sheet. During the three and twelve months ended December 31, 2019, equity income and transactions costs of \$0.2 million and \$0.9 million, respectively, were recognized.

The following tables summarizes the financial information of Elliott at 100%, adjusted for fair value differences at acquisition, and reconciles the summarized financial information to the carrying amount of the Company's initial 49% investment in Elliott at December 31, 2019. Assets and liabilities are shown as at December 31, 2019, with net income amounts shown for the twelve months ended December 31, 2019:

(millions of Canadian dollars, unaudited)	2019
Current assets	\$ 18.1
Non-current assets	28.8
Current liabilities	(9.4)
Non-current liabilities	(1.3)
Net assets (100%)	36.2
Fair value adjustments to net assets <sup>3</sup>	5.1
Fair value of net assets	41.3
Canfor's share of the fair value of net assets (49%)	\$ 20.2
Other current liability	20.4
Accumulated other comprehensive income	2.8
Preliminary goodwill	34.7
Canfor's investment in Elliott at December 31, 2019 (49%) (Note 5)	\$ 78.1

(millions of Canadian dollars, unaudited)		<b>2019</b>
Revenue	\$	<b>51.1</b>
Operating income		<b>2.0</b>
Net income		<b>1.8</b>
Canfor's share of net income (49%)	\$	<b>0.9</b>

<sup>3</sup> Fair value adjustments of \$2.0 million and \$3.1 million were made to current assets and non-current assets, respectively.

On May 31, 2020, Canfor will increase its ownership interest to 100%, at which time Elliott's results and balances are expected to be consolidated into Canfor's. Canfor will pay the second instalment payment of US\$37.0 million upon closing of the second phase purchase on May 31, 2020, and the third and final instalment payment of US\$35.0 million on May 31, 2021.

**(b) Vida Group of Sweden**

On February 28, 2019, the Company completed the acquisition of 70% of Vida, Sweden's largest privately-owned sawmill company, for \$589.9 million (4,134 million Swedish Krona ("SEK")), including a net working capital adjustment of \$0.3 million, plus transaction and closing costs. The acquisition method of accounting was applied in accordance with IFRS 3 *Business Combinations*, when Canfor acquired control of Vida on February 28, 2019. The acquisition included nine sawmills in southern Sweden, producing up to 1.1 billion board feet of spruce and pine products annually, and nine value added facilities that produce packaging, modular housing, industrial products and energy.

The Company incurred acquisition-related costs of \$4.2 million, principally relating to external legal fees and due diligence costs, which have been included in 'Selling and Administrative Costs'. These amounts were recorded in the Company's consolidated statement of income (loss) when incurred.

On a consolidated basis, for the ten months ended December 31, 2019, Vida has contributed \$724.5 million of sales, \$28.6 million of operating income and \$82.3 million of operating income before amortization to Canfor's results. If the acquisition had occurred on January 1, 2019, it is estimated that for the twelve months ended December 31, 2019, Vida's sales would have been \$885.2 million, operating income would have been \$50.6 million and operating income before amortization would have been \$111.6 million. Vida's operating income for 2019 includes \$39.2 million of incremental amortization and other expenses driven by the purchase price allocation at the acquisition date.

The following table summarizes the consideration paid for 70% of Vida, inclusive of the net working capital adjustment and less cash acquired at acquisition:

(millions of Canadian dollars, unaudited)	
Total consideration	\$ <b>589.9</b>
Less: consideration holdback	<b>(9.7)</b>
Total cash consideration paid	<b>580.2</b>
Less: cash acquired	<b>(17.9)</b>
Total cash consideration paid, net of cash acquired	\$ <b>562.3</b>

The consideration holdback of \$9.7 million (68 million SEK) is required to be withheld by Canfor in a separate bank account and not paid until the fifth anniversary of the closing date, February 28, 2024. As a result, the holdback is classified as non-current restricted cash and is included in 'Other Deposits, Loan, Advances and Long-Term Assets' (Note 5), with an offsetting payable recognized in 'Other Long-Term Liabilities' on the Company's consolidated balance sheet at December 31, 2019.

The table below outlines preliminary and final recognized amounts of identifiable assets acquired and liabilities assumed at 100%, less the 30% non-controlling interest retained by Vida shareholders at the acquisition date:

(millions of Canadian dollars, unaudited)		Preliminary	Final
Cash	\$	17.9	\$ <b>17.9</b>
Operating loan facilities (including overdraft facilities)		(17.6)	<b>(17.6)</b>
Long-term debt		(21.6)	<b>(21.6)</b>
Non-cash working capital, net (including inventory)		210.8	<b>210.8</b>
Property, plant and equipment		462.7	<b>468.5</b>
Right-of-use assets		9.9	<b>9.9</b>
Other non-current assets		0.5	<b>0.5</b>
Lease obligations		(9.9)	<b>(9.9)</b>

(millions of Canadian dollars, unaudited)	Preliminary	Final
Other non-current liabilities (including deferred tax)	\$ (26.0)	\$ (25.8)
Deferred tax liability on fair value adjustments, net	(66.0)	(67.2)
<b>Total net identifiable assets</b>	<b>\$ 560.7</b>	<b>\$ 565.5</b>
Non-controlling interest	\$ (189.7)	\$ (171.3)
Goodwill	219.2	195.7
<b>Total consideration</b>	<b>\$ 590.2</b>	<b>\$ 589.9</b>

Balances that have required significant fair value adjustments for purchase price accounting included goodwill, deferred income taxes, property, plant and equipment and inventory.

Final recognized amounts reflect retrospective adjustments to property, plant and equipment fair values following the completion of an external valuation in the fourth quarter of 2019. Accordingly, amortization was retrospectively adjusted resulting in an \$11.4 million reduction in amortization expense across the ten month period since acquisition. The external, independent valuers, having the appropriate recognized professional qualifications and experience, determined the fair values of property, plant and equipment using the market comparison and cost technique, considering market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustment for physical deterioration, as well as functional and economic obsolescence.

The fair value of inventory was determined by Canfor applying a market comparison technique, determined based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories. Goodwill of \$195.7 million has been recognized as part of the purchase, calculated as the excess of the aggregate consideration transferred and the amount of non-controlling interests, over the fair value of the estimated identifiable assets acquired and liabilities assumed.

The goodwill arising from the acquisition is attributable to management strength, expected future income and cash-flow projections, access to new international markets and the ability to further diversify Canfor's current product offering. As part of the consolidation of Vida, a net deferred tax liability of \$67.2 million was recognized for differences between tax and accounting values of property, plant and equipment and inventory.

None of the goodwill recognized is deductible for tax purposes. Goodwill arising from the acquisition has been recognized as follows:

(millions of Canadian dollars, unaudited)		
Total consideration	\$	589.9
Non-controlling interest <sup>4</sup>		171.3
Fair value of net identifiable assets		(565.5)
<b>Goodwill at acquisition</b>	<b>\$</b>	<b>195.7</b>

<sup>4</sup> Calculated based on Vida's proportionate 30% interest in the fair value of the net identifiable assets acquired, adjusted for Vida's existing non-controlling interests at acquisition.

At the acquisition date, Canfor recorded a put liability of SEK 830.1 million, or \$118.6 million, relating to Vida's non-controlling shareholders' option to sell their remaining 30% ownership interest to the Company in 3 to 10 years' time. Key assumptions used in the valuation model to estimate this put liability include historical and forecast pricing, costs and exchange rates, which the Company's management determined with reference to internal and external publications, where applicable. A discount rate of 10%, reflecting an estimated market rate of return, was used for the purpose of estimating this liability.

This put liability is translated to the Canadian dollar at each reporting period, with foreign currency differences arising on translation recognized in other comprehensive income (loss) and recorded to the accumulated foreign exchange translation account. Subsequent changes to the measurement of the put liability are recognized in other equity.

As at December 31, 2019, the put liability was remeasured at SEK 802.4 million. As a result of this remeasurement, including foreign exchange translation differences subsequent to initial recognition, the balance of the put liability was \$111.9 million at December 31, 2019.



## 15. Countervailing and Anti-Dumping Duties

In 2016, a petition was filed by the US Lumber Coalition to the US Department of Commerce ("DOC") and the US International Trade Commission ("ITC") alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers. Canfor was selected by the DOC as a "mandatory respondent" to the countervailing and anti-dumping investigations and is subject to company specific countervailing and anti-dumping duties. As a result of the DOC's investigation, countervailing duties ("CVD") and anti-dumping duties ("ADD") were imposed on the Company's Canadian lumber exports to the United States beginning in 2017, with cash deposits posted at an ADD rate of 7.28% and CVD rate of 13.24%, resulting in a combined cash deposit rate of 20.52%. Cumulative cash deposits paid to December 31, 2019 were \$421.4 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 NAFTA and through the World Trade Organization, where Canadian litigation has proven successful in the past. Despite the reduced preliminary rates for the first period of review, no cash duties will be refunded to the Company until such time as the litigation regarding the imposition of CVD and ADD has been settled.

### **First Period of Review ("POR1")**

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

In early 2020, the DOC announced the preliminary results for the first period of review. Accordingly, the Company's preliminary CVD cash deposit rate was determined to be 2.93% for 2017 and 2.61% for 2018 (versus a cash deposit rate of 13.24%), while the preliminary ADD cash deposit rate was 2.02% for the entire first period of review (versus a cash deposit rate of 7.28% and an estimated accrual rate of 2.6%). For the Company, the difference between the combined cash deposit rate of 20.52% and the combined preliminary DOC rates for POR1 is currently estimated at \$217.3 million (US\$163.3 million).

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

A summary of the various rates is as follows:

Time Period	Deposit Rate	Accrued Rate	Preliminary DOC Rate	Description
April 2017 – December 2018	20.52%	15.84%	4.63%	'1 <sup>st</sup> Period of Review'
January 2019 – December 2019	20.52%	29.24% <sup>5</sup>	Anticipated in 2021	'2 <sup>nd</sup> Period of Review'
January 2020 – July 2020	20.52%		Anticipated in 2022	'3 <sup>rd</sup> Period of Review'
August 2020 – December 2020	4.63% <sup>6</sup>			New estimated cash deposit rate from POR1

<sup>5</sup> Includes Canfor's estimated ADD accrual rate determined by applying DOC methodology to current sales and cost data.

<sup>6</sup> Preliminary POR1 rate subject to review and finalization in 2020; final POR 1 rate currently anticipated to be effective in August 2020.

In addition, upon finalization of these rates, an additional recovery will be recognized in the Company's consolidated financial statements to reflect the difference between the accrual rate of 15.84% and final rates as established for the first period of review. This additional recovery is currently estimated at \$140.6 million (US\$105.7 million).

### **Second Period of Review ("POR 2")**

The second period of review is based on sales and cost data in 2019. While the Company is unable to estimate an applicable CVD rate separate from the cash deposit rate for this period, the ADD rate was expensed at a rate of 16.0% in 2019 reflecting the significant challenges experienced during the year, resulting in a combined accrual rate of 29.24% for 2019, while the cash deposit rate for 2019 remained at 20.52%.

## Summary

As at December 31, 2019 Canfor has paid cumulative cash deposits of \$421.4 million. For accounting purposes, a net duty recoverable of \$32.4 million is included on the Company's December 31, 2019 balance sheet reflecting differences between the cash deposit rate of 20.52%, the Company's POR1 accrual rate of 15.84% and the Company's POR2 accrual rate of 29.24%.

For the twelve months ended December 31, 2019, the Company recorded a net duty expense of \$178.7 million (three months ended December 31, 2019 - \$43.7 million), comprised of cash deposits paid of \$137.4 million (three months ended December 31, 2019 - \$33.2 million), and net additional expense of \$41.3 million (three months ended December 31, 2019 - \$10.5 million), largely reflecting the Company's estimated accrual rate for POR2.

Effective duties (millions of Canadian dollars, unaudited)		<b>2019</b>
Cash deposits paid in 2019 (20.52%)	<b>\$</b>	<b>137.4</b>
Incremental pre-tax expense attributable to POR2 – ADD (16.0% versus 7.28%) <sup>7</sup>		<b>45.6</b>
Duty recovery, net, POR1 – ADD (2.9% versus 2.6%) <sup>8</sup>		<b>(4.3)</b>
Duty expense, net	<b>\$</b>	<b>178.7</b>

<sup>7</sup> Reflects Canfor's estimated ADD accrual rate for POR2 determined by applying DOC methodology to current sales and cost data.

<sup>8</sup> Reflects Canfor's estimated ADD accrual rate of 2.9% for POR1 (versus the DOC's ADD cash deposit rate of 7.28%) determined by applying DOC methodology to sales and cost data as of November 30, 2018. Following the addition of December 2018 sales and cost data, Canfor's estimated ADD accrual rate was revised to 2.6% for all of POR1, resulting in a recovery recognized in POR2.

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