2021

QUARTER FOUR

INTERIM REPORT

FOR THE THREE MONTHS ENDED DEC. 31, 2021

CANFOR CORPORATION

To Our Shareholders

Canfor Corporation ("The Company" or "Canfor") reported its 2021 and fourth quarter 2021 results[1]:

Overview

- Record-high 2021 operating income before adjusting items of $2.2 billion; adjusted shareholder net income of $1.5 billion, or $12.16 per share
- Fourth quarter of 2021 adjusted operating income of $216 million; adjusted shareholder net income of $155 million or $1.24 per share
- 2021 includes impairment charges totaling $294 million or $1.47 per share, resulting in reported operating income of $1.9 billion for the year, net shareholder income of $1.3 billion or $10.74 per share; fourth quarter of 2021 operating loss of $67 million, net shareholder loss of $23 million or $0.19 per share
- Completed acquisition of Millar Western Forest Products Ltd.'s ("Millar Western") solid wood operations and associated tenure located in Alberta, Canada, for $420 million, including an estimated $56 million in working capital, adding 630 million board feet to Canfor's annual production capacity
- Announced sale of Mackenzie forest tenure and sawmill assets for combined proceeds of $70 million

Financial Results

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

(millions of Canadian dollars, except per share amounts)	**Q4 2021**	Q3 2021	**YTD 2021**	Q4 2020	YTD 2020
Sales	**$ 1,571.3**	$ 1,676.6	**$ 7,684.9**	$ 1,618.0	$ 5,454.4
Reported operating income before amortization and impairments	**$ 321.7**	$ 425.4	**$ 2,578.4**	$ 520.0	$ 1,108.2
Reported operating income (loss)	**$ (66.8)**	$ 331.0	**$ 1,908.1**	$ 419.6	$ 727.3
Adjusted operating income before amortization and impairments[1]	**$ 311.3**	$ 425.1	**$ 2,565.5**	$ 517.0	$ 1,097.5
Adjusted operating income[1]	**$ 216.3**	$ 330.7	**$ 2,188.7**	$ 416.6	$ 716.6
Net income (loss)[2]	**$ (23.1)**	$ 210.0	**$ 1,341.6**	$ 335.6	$ 544.4
Net income (loss) per share, basic and diluted[2]	**$ (0.19)**	$ 1.68	**$ 10.74**	$ 2.68	$ 4.35
Adjusted net income[1, 2]	**$ 154.6**	$ 209.0	**$ 1,519.0**	$ 321.7	$ 555.6
Adjusted net income per share, basic and diluted[1, 2]	**$ 1.24**	$ 1.68	**$ 12.16**	$ 2.57	$ 4.44

[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.

2021 was a record-breaking year for Canfor, as unprecedented strength in global lumber markets in the first half of the year drove benchmark lumber prices to new record highs. This record pricing, coupled with higher production and shipment volumes in Europe and the US South substantially outweighed the impacts of extreme weather and higher log costs in British Columbia ("BC"), and operational challenges faced by the Company's pulp business in the latter part of the year.

As a result, the Company reported an all-time high operating income of $1,908.1 million and net income per share of $10.74 for 2021, compared to the previous record-high operating earnings of $727.3 million and net income per share of $4.35 in 2020. After taking account of adjusting items, largely comprised of asset impairments, the Company's operating income for 2021 was $2,188.7 million, with adjusted net income of $12.16 per share, almost triple the record earnings in the prior year.

For the fourth quarter of 2021, the Company reported an operating loss of $66.8 million. After taking account of adjusting items, the Company's operating income was $216.3 million for the fourth quarter of 2021, down $114.4 million compared to an adjusted operating income of $330.7 million for the third quarter of 2021, principally reflecting a modest decline in lumber segment earnings combined with moderately lower pulp and paper segment earnings.

For the lumber segment, notwithstanding the upward trend in North American benchmark lumber prices throughout the period, adjusted earnings decreased $49.0 million quarter-over-quarter as a result of slightly lower unit sales realizations in Western Canada and Europe, in part due to a timing lag in shipments (versus orders), combined with transportation-related reductions in North American production and shipment volumes, and the associated increase in unit manufacturing costs in that region.

Results for the pulp and paper segment in the current quarter reflected weaker global pulp market conditions, combined with the significant impact of severe weather conditions on Canfor Pulp Products Inc.'s ("CPPI") operations and shipments, most notably at its Northwood Northern Bleached Softwood Kraft ("NBSK") pulp mill ("Northwood") and its Taylor Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill ("Taylor"), as well as capital-related downtime at Northwood relating to CPPI's decision to rebuild the lower furnace of recovery boiler number one ("RB1").

North American lumber market fundamentals strengthened through the fourth quarter of 2021 as demand in the repair and remodeling sector continued to outperform global expectations. Housing starts remained strong through the current quarter after some weakness early in the period, related to the traditional seasonal slow-down, supply chain disruptions, severe weather conditions and labour shortages.

US housing starts averaged 1,654,000 units on a seasonally adjusted basis for the current quarter, up 6% from the previous quarter, reflecting similar increases for single-family starts and multi-family starts. In Canada, housing starts averaged 261,000 units on a seasonally adjusted basis, broadly in line with the prior quarter.

Offshore lumber demand to Asia, particularly to China, declined somewhat in the current quarter primarily reflecting a seasonal decrease in purchasing activity. Although prices in Japan declined quarter-over-quarter, they remained significantly above historical averages. Western Europe and Scandinavian lumber demand showed a modest decline resulting in increased inventories in the region, particularly in the United Kingdom, combined with a moderation in activity in both the repair and remodeling and residential construction sectors following significant strength in prior quarters.

The average benchmark North American Random Lengths Western Spruce/Pine/Fir ("SPF") 2x4 #2&Btr price improved significantly throughout the fourth quarter of 2021, beginning October at US$555 per Mfbm and ending December at US$1,045 per Mfbm. For the quarter overall, the Western SPF 2x4 #2&Btr price averaged US$711 per Mfbm, up US$217 per Mfbm, or 44%, from the previous quarter. Conversely, offshore lumber prices experienced moderate declines quarter-over-quarter, due in part to the nature of export pricing, much of which is negotiated monthly or quarterly in advance. Overall, the Company's Western SPF lumber unit sales realizations experienced a modest decrease in the current quarter, as the uplift in benchmark pricing during the current period, was more than outweighed by the decline in offshore unit sales realizations, largely driven by lower pricing to Japan, and, to a lesser extent, an unfavourable timing lag in shipments (versus orders) and higher duties.

The movement in the North American Random Lengths Southern Yellow Pine ("SYP") East 2x4 #2 price through the fourth quarter of 2021 followed a similar trajectory to that of Western SPF, beginning the quarter at US$620 per Mfbm and ending the year at US$1,280 per Mfbm. For the current quarter overall, the SYP East 2x4 #2 price averaged US$862 per Mfbm, up US$329 per Mfbm, or 62%, from the previous quarter. Less pronounced pricing increases for most wider-width dimension products, including the SYP East 2x6 #2 which averaged US$538 per Mfbm in the current period, up US$131 per Mfbm, or 32%, tempered the increase in the Company's SYP average unit sales realizations quarter-over-quarter.

The Company's European lumber unit sales realizations for the fourth quarter of 2021 were significantly lower than the previous quarter principally reflecting a decline in European lumber market demand and pricing, and, to a lesser extent, a 2% stronger Canadian dollar (versus the Swedish Krona).

Total lumber shipments of 1.32 billion board feet were in line with the previous quarter as significantly higher European lumber shipments, following the seasonal production downtime taken in the prior period, was offset by transportation challenges and reduced production across the Company's North American lumber operations. In BC, unprecedented flooding severely damaged rail and highway infrastructure, combined with intense cold weather that followed, significantly reduced shipment volumes in the current quarter. In the US South, shipments were hampered by rail service issues, limited offshore container availability and a tight trucking market.

Total lumber production, at 1.29 billion board feet, was broadly comparable with the previous quarter, as the benefit of increased operating days at the Company's European operations following the aforementioned seasonal downtime was mostly offset by a decline in Western SPF and SYP lumber production. In BC, the reduced operating schedules implemented in August 2021, reflecting fibre constraints and supply infrastructure challenges, continued through most of the fourth quarter, and impacted Western SPF production by approximately 220 million board feet in the current period. Lower SYP production in the current period primarily reflected log shortages and reduced trucking availability tied to COVID-19 absenteeism.

Lumber unit manufacturing and product costs increased modestly from the previous quarter, largely reflecting moderately higher log costs in Western Canada and, to a lesser extent, the US South, combined with the incremental impact of lower production volumes at the Company's North American operations on unit manufacturing costs. In BC, log cost increases in the current quarter were primarily driven by the direct and indirect impact of a rise in market-based stumpage costs to historically high levels, and, to a lesser extent, increased purchased wood costs. In the US South, log cost pressures were largely driven by hauling capacity constraints and increased log demand. These increases were mitigated in part by slightly lower log costs at the Company's European operations correlated with market-related declines in that region.

Since the beginning of 2019, industry-wide rationalization in BC has removed over 2.2 billion board feet of annual Western SPF production capacity. In many areas of the province, the Allowable Annual Cut ("AAC") has been reduced through Timber Supply Review determinations of the AAC by the BC Government. In 2021, the Prince George Timber Supply Area ("PGTSA") was directly negatively impacted by the Minister's apportionment decision, which allocates the AAC among tenures following a timber supply determination. Further reductions to the AAC of the PGTSA are anticipated in 2023. In addition, it is anticipated that the AAC in the BC Interior may be further reduced from current levels as a result of the impacts of the Mountain Pine Beetle ("MPB") infestation, losses resulting from wildfire events, as well as other pressures on BC's Timber Harvesting Land Base.

In recent years, the Company has taken various steps to secure access to high-quality fibre and ensure the viability and competitiveness of its BC lumber operations, but despite these actions, since 2019, the Company has permanently closed two mills, indefinitely curtailed its Mackenzie sawmill (prior to its recently announced sale in February 2022), and closed one production line at its Plateau sawmill (as recently announced). In 2021, as a result of escalating log costs driven by an insufficient supply of economically viable timber following the MPB epidemic, wildfire events and a reduction in AAC in the PGTSA, as well as higher market-based stumpage, the Company performed an impairment test on its Western Canadian lumber operations as of December 31, 2021. This assessment resulted in an impairment charge of $198.5 million being recognized in the current year as a reduction to the carrying value of lumber segment assets.

Like other central and northern BC Interior pulp producers, CPPI's supply of sawmill residual chips has been significantly reduced over the last few years, primarily driven by extensive permanent sawmill curtailments in the region. As a result, CPPI's fibre purchases have experienced ongoing cost pressures that include an increase in the proportion of higher-cost whole log chips and higher transportation costs.

Looking forward there remains significant uncertainty with regards to the future of economically viable fibre within BC. This uncertainty is driven by, among other factors, the lasting impacts of the MPB epidemic, wildfire events, future Timber Supply Review determinations by the BC Government, as well as uncertainties associated with unsettled land and title claims by various Indigenous Nations and outstanding policy, land use decisions and legislative initiatives by the BC Government. This includes the BC Government's announced deferral of harvesting on 2.6 million hectares of BC's old-growth forests and the potential redistribution of Crown tenure harvesting rights, including Indigenous Nations.

Consequently, the BC sawmill manufacturing industry faces a constrained fibre supply environment, where existing sawmill capacity outstrips the available timber supply in BC. Until this imbalance is corrected, the Company anticipates escalating log cost pressures in BC for its sawmills and a higher cost fibre supply for CPPI's pulp mills (both for sawmill residual chips and whole-log chips). In addition, it is expected that the long-term aggregate available chip supply will be permanently reduced.

Recognizing these increased fibre costs as well as ongoing uncertainty surrounding fibre availability, the Company also performed an impairment test for its pulp and paper segment as of December 31, 2021, which resulted in an impairment charge of $95.0 million being recognized in the current year as a reduction to the carrying value of pulp assets within the pulp and paper segment.

As at December 31, 2021, the Company had paid cumulative cash deposits of $682.5 million on countervailing ("CVD") and anti-dumping duties ("ADD"). In January 2022, the US Department of Commerce ("DOC") announced the preliminary results for the third period of review ("POR3"), which indicated that the Company's preliminary CVD and ADD rate for 2020 was 1.83% and 4.92%, respectively. Upon finalization of these rates (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 consolidated financial statements to reflect the difference between the combined accrual rate and the DOC rates for POR3. In addition, once final, the Company's current combined cash deposit rate of 19.54% will be reset to the DOC rates for POR3 (currently estimated to be 6.75% based on the preliminary determination). Despite the reduced preliminary rates for the 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.

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)	**As at December 31, 2021**	As at December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	**$ 1,354.8**	$ 419.2
Accounts receivable - Trade	**430.4**	359.4
- Other	**84.1**	73.3
Inventories (Note 3)	**1,173.8**	839.9
Prepaid expenses and other	**120.3**	101.4
Total current assets	**3,163.4**	1,793.2
Property, plant and equipment	**1,812.7**	1,976.1
Right-of-use assets	**65.5**	79.3
Timber licenses	**313.2**	431.3
Goodwill and other intangible assets	**514.8**	543.5
Long-term investments and other (Note 4)	**304.3**	285.4
Total assets	**$ 6,173.9**	$ 5,108.8
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**$ 730.2**	$ 667.7
Operating loans (Note 5(a))	**18.7**	12.3
Current portion of deferred reforestation obligations	**58.3**	52.9
Current portion of term debt (Note 5(b))	**0.5**	13.9
Other current liability	**-**	38.6
Current portion of lease obligations	**21.9**	24.1
Income taxes payable	**252.0**	38.9
Total current liabilities	**1,081.6**	848.4
Term debt (Note 5(b))	**245.5**	662.9
Retirement benefit obligations	**205.5**	233.4
Lease obligations	**49.2**	60.5
Deferred reforestation obligations	**54.6**	61.8
Other long-term liabilities	**31.0**	35.0
Put liability (Note 6)	**156.2**	170.0
Deferred income taxes, net	**341.2**	403.1
Total liabilities	**$ 2,164.8**	$ 2,475.1
EQUITY		
Share capital	**$ 982.2**	$ 987.9
Contributed surplus and other equity	**(130.9)**	(127.4)
Retained earnings	**2,586.8**	1,227.3
Accumulated other comprehensive income	**45.9**	119.7
Total equity attributable to equity shareholders of the Company	**3,484.0**	2,207.5
Non-controlling interests	**525.1**	426.2
Total equity	**$ 4,009.1**	$ 2,633.7
Total liabilities and equity	**$ 6,173.9**	$ 5,108.8

Commitments and Contingencies (Note 13) and **Subsequent Events** (Notes 10, 11 and 14)

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 (Loss)

(millions of Canadian dollars, except per share data, unaudited)	3 months ended December 31, **2021**	2020	12 months ended December 31, **2021**	2020
Sales	**$ 1,571.3**	$ 1,618.0	**$ 7,684.9**	$ 5,454.4
Costs and expenses				
Manufacturing and product costs	**1,050.0**	970.3	**4,173.3**	3,538.8
Freight and other distribution costs	**168.9**	180.7	**701.0**	645.3
Countervailing and anti-dumping duty expense (recovery), net (Note 10)	**(1.1)**	(95.5)	**100.4**	18.8
Amortization	**95.0**	100.4	**376.8**	380.9
Selling and administration costs	**43.3**	42.5	**147.1**	127.9
Restructuring, mill closure and other items, net (Note 11)	**(11.5)**	-	**(15.3)**	15.4
Asset impairments (Note 12)	**293.5**	-	**293.5**	-
	$ 1,638.1	$ 1,198.4	**$ 5,776.8**	$ 4,727.1
Operating income (loss)	**(66.8)**	419.6	**1,908.1**	727.3
Finance income (expense), net	**(4.2)**	4.1	**(24.1)**	(36.2)
Foreign exchange gain (loss) on term debt	**(0.3)**	13.5	**6.3**	4.2
Foreign exchange loss on duty deposits recoverable, net	**(2.7)**	(8.2)	**(4.4)**	(7.2)
Gain (loss) on derivative financial instruments (Note 6)	**(4.6)**	4.3	**(16.1)**	(4.1)
Other income, net	**5.3**	18.7	**27.0**	36.1
Net income (loss) before income taxes	**(73.3)**	452.0	**1,896.8**	720.1
Income tax recovery (expense)	**37.8**	(105.3)	**(438.0)**	(160.2)
Net income (loss)	**$ (35.5)**	$ 346.7	**$ 1,458.8**	$ 559.9
Net income (loss) attributable to:				
Equity shareholders of the Company	**$ (23.1)**	$ 335.6	**$ 1,341.6**	$ 544.4
Non-controlling interests	**(12.4)**	11.1	**117.2**	15.5
Net income (loss)	**$ (35.5)**	$ 346.7	**$ 1,458.8**	$ 559.9
Net income (loss) per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 7)	**$ (0.19)**	$ 2.68	**$ 10.74**	$ 4.35

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, **2021**	3 months ended December 31, 2020	12 months ended December 31, **2021**	12 months ended December 31, 2020
Net income (loss)	**$ (35.5)**	$ 346.7	**$ 1,458.8**	$ 559.9
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to net income (loss):				
Defined benefit plan actuarial gains, net	**9.9**	39.1	**46.9**	12.2
Income tax expense on defined benefit plan actuarial gains, net	**(3.2)**	(10.6)	**(13.2)**	(3.3)
	6.7	28.5	**33.7**	8.9
Items that may be reclassified subsequently to net income (loss):				
Foreign exchange translation of foreign operations, net of tax	**(26.4)**	(2.3)	**(73.8)**	53.8
Other comprehensive income (loss), net of tax	**(19.7)**	26.2	**(40.1)**	62.7
Total comprehensive income (loss)	**$ (55.2)**	$ 372.9	**$ 1,418.7**	$ 622.6
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	**$ (44.3)**	$ 359.8	**$ 1,298.4**	$ 606.8
Non-controlling interests	**(10.9)**	13.1	**120.3**	15.8
Total comprehensive income (loss)	**$ (55.2)**	$ 372.9	**$ 1,418.7**	$ 622.6

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, **2021**	3 months ended December 31, 2020	12 months ended December 31, **2021**	12 months ended December 31, 2020
Share capital				
Balance at beginning of period	**$ 982.2**	$ 987.9	**$ 987.9**	$ 987.9
Share purchases (Note 7)	**-**	-	**(5.7)**	-
Balance at end of period	**$ 982.2**	$ 987.9	**$ 982.2**	$ 987.9
Contributed surplus and other equity				
Balance at beginning of period	**$ (143.8)**	$ (92.1)	**$ (127.4)**	$ (82.8)
Put liability (Note 6)	**12.9**	(35.3)	**(3.5)**	(44.6)
Balance at end of period	**$ (130.9)**	$ (127.4)	**$ (130.9)**	$ (127.4)
Retained earnings				
Balance at beginning of period	**$ 2,603.9**	$ 865.2	**$ 1,227.3**	$ 674.3
Net income (loss) attributable to equity shareholders of the Company	**(23.1)**	335.6	**1,341.6**	544.4
Defined benefit plan actuarial gains, net of tax	**5.2**	26.5	**30.6**	8.6
Dissolution of non-controlling interest	**0.8**	-	**0.8**	-
Share purchases (Note 7)	**-**	-	**(13.5)**	-
Balance at end of period	**$ 2,586.8**	$ 1,227.3	**$ 2,586.8**	$ 1,227.3
Accumulated other comprehensive income				
Balance at beginning of period	**$ 72.3**	$ 122.0	**$ 119.7**	$ 65.9
Foreign exchange translation of foreign operations, net of tax	**(26.4)**	(2.3)	**(73.8)**	53.8
Balance at end of period	**$ 45.9**	$ 119.7	**$ 45.9**	$ 119.7
Total equity attributable to equity shareholders of the Company	**$ 3,484.0**	$ 2,207.5	**$ 3,484.0**	$ 2,207.5
Non-controlling interests				
Balance at beginning of period	**$ 542.6**	$ 417.6	**$ 426.2**	$ 423.6
Net income (loss) attributable to non-controlling interests	**(12.4)**	11.1	**117.2**	15.5
Defined benefit plan actuarial gains attributable to non-controlling interests, net of tax	**1.5**	2.0	**3.1**	0.3
Distributions to non-controlling interests	**(4.9)**	(4.5)	**(19.7)**	(13.2)
Dissolution of non-controlling interest	**(1.7)**	-	**(1.7)**	-
Balance at end of period	**$ 525.1**	$ 426.2	**$ 525.1**	$ 426.2
Total equity	**$ 4,009.1**	$ 2,633.7	**$ 4,009.1**	$ 2,633.7

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, **2021**	3 months ended December 31, 2020	12 months ended December 31, **2021**	12 months ended December 31, 2020
Cash generated from (used in):				
Operating activities				
Net income (loss)	**$ (35.5)**	$ 346.7	**$ 1,458.8**	$ 559.9
Items not affecting cash:				
Amortization	**95.0**	100.4	**376.8**	380.9
Income tax expense (recovery)	**(37.8)**	105.3	**438.0**	160.2
Change in long-term portion of deferred reforestation obligations, net	**3.8**	9.2	**(7.4)**	4.6
Foreign exchange loss (gain) on term debt	**0.3**	(13.5)	**(6.3)**	(4.2)
Foreign exchange loss on duty deposits recoverable, net	**2.7**	8.2	**4.4**	7.2
Adjustment to accrued duties (Note 10)	**(27.5)**	(142.0)	**11.9**	(153.8)
Changes in mark-to-market value of derivative financial instruments	**2.8**	(1.8)	**2.9**	(0.5)
Employee future benefits expense	**2.3**	3.1	**10.8**	11.1
Finance expense (income), net	**4.2**	(4.1)	**24.1**	36.2
Asset impairments (Note 12)	**293.5**	-	**293.5**	-
Other, net	**(9.7)**	(13.3)	**(22.1)**	(2.6)
Defined benefit plan contributions, net	**(2.3)**	(2.4)	**(13.6)**	(13.5)
Income taxes received (paid), net	**(48.1)**	(14.5)	**(273.6)**	54.5
	243.7	381.3	**2,298.2**	1,040.0
Net change in non-cash working capital (Note 8)	**(147.9)**	(21.2)	**(383.3)**	33.6
	95.8	360.1	**1,914.9**	1,073.6
Financing activities				
Operating loan drawings (repayments), net	**3.2**	(2.6)	**8.0**	(371.3)
Repayments of term debt, net	**(7.9)**	(8.3)	**(422.8)**	(8.2)
Payments of lease obligations	**(6.0)**	(6.3)	**(25.3)**	(24.2)
Finance expenses paid	**(7.7)**	(10.3)	**(25.1)**	(46.1)
Share purchases (Note 7)	**(0.3)**	-	**(19.2)**	-
Cash distributions paid to non-controlling interests	**(4.9)**	(4.5)	**(19.7)**	(13.2)
	(23.6)	(32.0)	**(504.1)**	(463.0)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(175.3)**	(93.9)	**(428.2)**	(201.5)
Phased acquisition of Elliott	**-**	-	**(38.2)**	(46.3)
Other, net	**8.1**	(1.6)	**(2.0)**	0.9
	(167.2)	(95.5)	**(468.4)**	(246.9)
Foreign exchange loss on cash and cash equivalents	**(10.8)**	(5.9)	**(6.8)**	(4.6)
Increase (decrease) in cash and cash equivalents*	**(105.8)**	226.7	**935.6**	359.1
Cash and cash equivalents at beginning of period*	**1,460.6**	192.5	**419.2**	60.1
Cash and cash equivalents at end of period*	**$ 1,354.8**	$ 419.2	**$ 1,354.8**	$ 419.2

*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") 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"), which is 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 December 31, 2021.

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, 2021, available at www.canfor.com or www.sedar.com.

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

These financial statements were authorized for issue by the Company's Board of Directors on March 1, 2022.

Change in Accounting Policy

Effective January 1, 2021, the Company has adopted amendments to IFRS 9 *Financial Instruments* ("IFRS 9"), IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures,* and IFRS 16 *Leases, Interest Rate Benchmark Reform – Phase 2* ("Phase 2") as issued in August 2020. Phase 2 of the amendments required financial instruments measured using amortized cost to be adjusted to reflect changes to the effective interest rate. For the Company, the adoption of Phase 2 is applicable to its Canadian-dollar denominated floating rate term debt and its committed operating loan facilities, excluding Vida, which have yet to transition to an alternative benchmark interest rate at December 31, 2021. As a result, there was no impact to the Company's financial results upon adoption of Phase 2.

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 December 31, 2021**	As at December 31, 2020
Logs	**$ 343.4**	$ 196.9
Finished products	**639.2**	458.2
Residual fibre	**56.5**	61.2
Materials and supplies	**134.7**	123.6
	$ 1,173.8	$ 839.9

The above inventory balances are stated at the lower of cost and net realizable value. For the three and twelve months ended December 31, 2021, no inventory valuation adjustment was recognized for the lumber segment (three months ended December 31, 2020 – no adjustment; twelve months ended December 31, 2020 – $17.6 million write-down recovery). No provision for logs and lumber has been recognized at December 31, 2021 (December 31, 2020 – no provision).

For the three months ended December 31, 2021, a $1.1 million inventory write-down expense was recognized for the pulp and paper segment (twelve months ended December 31, 2021 – $2.4 million net write-down expense). For the three months ended December 31, 2020, a $3.0 million inventory write-down recovery was recognized (twelve months ended December 31, 2020 – $8.5 million net write-down recovery). At December 31, 2021, an inventory provision of $4.6 million has been recognized for finished pulp and raw materials (December 31, 2020 – $2.2 million).

4. Long-Term Investments and Other

(millions of Canadian dollars, unaudited)		As at December 31, 2021		As at December 31, 2020
Duty deposits recoverable, net (Note 10)	**$**	**188.4**	$	199.9
Other deposits, loans, advances and long-term assets		**49.0**		50.5
Other investments		**37.5**		18.0
Retirement benefit surplus		**24.0**		9.5
Deferred income taxes, net		**5.4**		7.5
	$	**304.3**	$	285.4

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 December 31, 2021, including interest receivable of $24.8 million (December 31, 2020 – $20.0 million), as well as a $46.5 million (US$36.7 million) receivable recognized in the fourth quarter of 2021 upon finalization of the CVD and ADD rates applicable to the second period of review (Note 10).

5. Operating Loans and Term Debt

(a) Available Operating Loans

(millions of Canadian dollars, unaudited)		As at December 31, 2021		As at December 31, 2020
Canfor (excluding Vida and CPPI)				
Available operating loans:				
Operating loan facility	**$**	**775.0**	$	550.0
Revolving credit facility		**190.2**		200.0
Facilities for letters of credit		**70.0**		70.0
Total operating loan facilities		**1,035.2**		820.0
Letters of credit		**(67.8)**		(67.2)
Total available operating loan facilities - Canfor	**$**	**967.4**	$	752.8
Vida				
Available operating loans:				
Operating loan facilities	**$**	**71.3**	$	78.8
Overdraft facilities		**30.2**		22.2
Total operating loan facilities		**101.5**		101.0
Operating loan facilities drawn		**(18.7)**		(12.3)
Total available operating loan facilities - Vida	**$**	**82.8**	$	88.7
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	**$**	**1,246.7**	$	1,031.0
Total operating loan facilities drawn	**$**	**(18.7)**	$	(12.3)
Total letters of credit	**$**	**(80.7)**	$	(80.1)
Total available operating loan facilities	**$**	**1,147.3**	$	938.6

On October 27, 2021, Canfor (excluding Vida and CPPI) extended the maturity date of its $775.0 million committed operating loan facility to October 27, 2026.

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 (excluding Vida and CPPI) has a separate facility to cover letters of credit. At December 31, 2021, $65.4 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%.

On December 15, 2021, CPPI extended the maturity date of its committed operating loan facility from April 6, 2023 to December 15, 2025. 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 the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin.

Canfor and CPPI's operating loan facilities have certain financial covenants, including maximum debt to total capitalization ratios. Vida is also subject to certain financial covenants, including minimum equity and interest coverage ratios. As at December 31, 2021, 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 December 31, 2021**		As at December 31, 2020
Canfor (excluding Vida and CPPI)				
CAD$225.0 million, floating interest, repaid on March 26, 2021	**$**	**-**	$	225.0
US$50.0 million, floating interest, repayable on June 28, 2031 (US$200.0 million at December 31, 2020)		**63.4**		254.7
US$100.0 million, fixed interest of 4.4%, repayable in three equal tranches on October 2, 2023, 2024 and 2025		**126.8**		127.3
Other		**4.6**		5.0
Vida				
SEK 55.0 million, floating interest, repaid on December 30, 2021		**-**		12.4
SEK 2.0 million, floating interest, repayable April 30, 2022		**0.3**		1.2
SEK 1.4 million, floating interest, repayable August 31, 2024		**0.2**		0.3
SEK 1.3 million, floating interest, repayable April 30, 2022		**0.2**		0.4
AUD 0.6 million, floating interest, repayable between January 23, 2022 and July 22, 2030		**0.5**		0.5
CPPI				
CAD$50.0 million, floating interest, repayable December 15, 2024		**50.0**		50.0
Term debt at end of period	**$**	**246.0**	$	676.8
Less: Current portion		**(0.5)**		(13.9)
Long-term portion	**$**	**245.5**	$	662.9

On December 15, 2021, CPPI extended the maturity date of its $50.0 million non-revolving term debt from September 30, 2022 to December 15, 2024.

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 December 31, 2021, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their term debt.

6. 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.

There were no transfers between fair value hierarchy levels in 2021 or 2020. The following table summarizes Canfor's financial instruments measured at fair value at December 31, 2021 and December 31, 2020, and shows the level within the fair value hierarchy in which they have been classified:

(millions of Canadian dollars, unaudited)	Fair Value Hierarchy Level		**As at December 31, 2021**		As at December 31, 2020
Financial assets measured at fair value					
Investments	Level 1	**$**	**36.1**	$	17.3
Derivative financial instruments	Level 2		**-**		1.1
Duty deposits recoverable, net (Notes 4 and 10)	Level 3		**188.4**		199.9
		$	**224.5**	$	218.3
Financial liabilities measured at fair value					
Derivative financial instruments	Level 2	**$**	**2.1**	$	0.3
Put liability	Level 3		**156.2**		170.0
		$	**158.3**	$	170.3

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

	3 months ended December 31,				12 months ended December 31,			
(millions of Canadian dollars, unaudited)		**2021**		2020		**2021**		2020
Interest rate swaps	**$**	**-**	$	-	**$**	**-**	$	(0.4)
Lumber futures		**(2.8)**		(0.8)		**(12.7)**		(7.0)
Foreign exchange forward contracts		**(1.8)**		5.1		**(3.4)**		3.3
Gain (loss) on derivative financial instruments	**$**	**(4.6)**	$	4.3	**$**	**(16.1)**	$	(4.1)

During the three and twelve months ended December 31, 2021, a gain of $12.9 million and a loss of $3.5 million, respectively, were recognized in 'Other equity' on the Company's condensed consolidated balance sheet following remeasurement of the put liability (three and twelve months ended December 31, 2020 – losses of $35.3 million and $44.6 million, respectively). As a result of this remeasurement, combined with foreign exchange gains of $5.4 million and $17.3 million for the three and twelve months ended December 31, 2021, respectively (three and twelve months ended December 31, 2020 – losses of $7.6 million and $13.5 million, respectively), the balance of the put liability was $156.2 million at December 31, 2021 (December 31, 2020 – $170.0 million).

7. Earnings (Loss) Per Common Share and Normal Course Issuer Bid

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

	3 months ended December 31,		12 months ended December 31,	
	2021	2020	**2021**	2020
Weighted average number of common shares	**124,493,600**	125,219,400	**124,909,404**	125,219,400

On June 16, 2021, the Company re-instituted 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 at June 10, 2021. The normal course issuer bid is set to expire on June 15, 2022.

During the three months ended December 31, 2021, the Company did not purchase any common shares, and paid $0.3 million in relation to shares purchased in the prior quarter. During the twelve months ended December 31, 2021, the Company purchased 725,800 common shares for $19.2 million (an average of $26.45 per common share).

As at December 31, 2021 and March 1, 2022 there were 124,493,600 common shares of the Company outstanding and Canfor's ownership interest in CPPI and Vida was 54.8% and 70.0%, respectively.

8. Net Change in Non-Cash Working Capital

(millions of Canadian dollars, unaudited)	3 months ended December 31, **2021**	3 months ended December 31, 2020	12 months ended December 31, **2021**	12 months ended December 31, 2020
Accounts receivable	**$ 21.3**	$ (16.7)	**$ (103.3)**	$ (93.6)
Inventories	**(153.5)**	(118.2)	**(356.3)**	(23.2)
Prepaid expenses and other	**2.8**	4.3	**(24.1)**	(5.1)
Accounts payable and accrued liabilities, and current portion of deferred reforestation obligations	**(18.5)**	109.4	**100.4**	155.5
Net change in non-cash working capital	**$ (147.9)**	$ (21.2)	**$ (383.3)**	$ 33.6

9. 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 December 31, 2021					
Sales from contracts with customers	**$ 1,322.0**	**$ 249.3**	**$ -**	**$ -**	**$ 1,571.3**
Sales to other segments	**35.8**	**-**	**-**	**(35.8)**	**-**
Operating income (loss)	**86.3**	**(137.2)**	**(15.9)**	**-**	**(66.8)**
Amortization	**72.0**	**22.6**	**0.4**	**-**	**95.0**
Capital expenditures[1]	**158.1**	**16.0**	**1.2**	**-**	**175.3**
3 months ended December 31, 2020					
Sales from contracts with customers	$ 1,380.2	237.8	-	-	1,618.0
Sales to other segments	43.9	-	-	(43.9)	-
Operating income (loss)	461.0	(28.3)	(13.1)	-	419.6
Amortization	78.0	22.1	0.3	-	100.4
Capital expenditures[1]	58.1	34.2	1.6	-	93.9
12 months ended December 31, 2021					
Sales from contracts with customers	**$ 6,540.5**	**$ 1,144.4**	**$ -**	**$ -**	**$ 7,684.9**
Sales to other segments	**191.1**	**0.5**	**-**	**(191.6)**	-
Operating income (loss)	**2,019.6**	**(65.5)**	**(46.0)**	**-**	**1,908.1**
Amortization	**288.1**	**87.3**	**1.4**	**-**	**376.8**
Capital expenditures[1]	**344.5**	**78.7**	**5.0**	**-**	**428.2**
Identifiable assets	**3,752.3**	**767.8**	**1,653.8**	**-**	**6,173.9**
12 months ended December 31, 2020					
Sales from contracts with customers	$ 4,464.1	990.3	-	$ -	$ 5,454.4
Sales to other segments	222.7	0.2	-	(222.9)	-
Operating income (loss)	816.0	(56.1)	(32.6)	-	727.3
Amortization	297.5	82.2	1.2	-	380.9
Capital expenditures[1]	125.4	73.3	2.8	-	201.5
Identifiable assets	3,542.4	887.5	678.9	-	5,108.8

[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 December 31, **2021**		2020		12 months ended December 31, **2021**		2020
Sales by location of customer								
Canada	**8%**	**$ 121.2**	10%	$ 157.4	**9%**	**$ 698.8**	10%	$ 525.2
United States	**51%**	**792.7**	58%	935.8	**54%**	**4,155.9**	56%	3,055.6
Europe	**21%**	**332.5**	14%	225.9	**17%**	**1,293.7**	14%	780.5
Asia	**18%**	**287.4**	17%	283.0	**18%**	**1,370.9**	18%	979.2
Other	**2%**	**37.5**	1%	15.9	**2%**	**165.6**	2%	113.9
	100%	**$ 1,571.3**	100%	$ 1,618.0	**100%**	**$ 7,684.9**	100%	$ 5,454.4

10. 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% for the balance of 2021. As at December 31, 2021, Canfor has paid cumulative cash deposits of $682.5 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.

In May 2021, the DOC announced the preliminary results for the second period of review ("POR2"), which is based on sales and cost data in 2019, and on November 24, 2021, finalized the rates. The Company's final CVD rate was determined to be 2.42% (versus a cash deposit rate of 13.24%), while the final ADD rate was 17.12% (versus a cash deposit rate of 7.28% and estimated accrual rate of 16.00%). The DOC's final combined cash deposit rate of 19.54% will apply to the Company's Canadian lumber shipments destined to the United States from December 1, 2021 until completion of the administrative review for the third period of review.

Upon finalization of these POR2 rates, a net recovery of $48.7 million (US$36.7 million) was recognized in the Company's condensed consolidated statement of income (loss) for the three and twelve months ended December 31, 2021, with a corresponding net receivable included in 'Long-term investments and other' (Note 4) on the Company's condensed consolidated balance sheet as at December 31, 2021, reflecting the difference between the accrual rate of 29.24% and the DOC's final combined rate established for POR2 (19.54%).

On January 1, 2020, the Company moved into the third period of review ("POR3"), which is based on sales and cost data in 2020. Consistent with prior periods of review, while the Company was unable to estimate an applicable CVD rate separate from the cash deposit rate, ADD was expensed at an estimated rate of 5.00% for POR3, resulting in a combined CVD and ADD accrual rate of 18.24% for January 1 to November 30, 2020 (versus the cash deposit rate of 20.52%) and 7.63% for December 2020 (versus the cash deposit rate of 4.62%).

Subsequent to year-end, in January 2022, the DOC announced the preliminary results for POR3, which indicated that the Company's preliminary CVD and ADD rate for 2020 was 1.83% and 4.92%, respectively. Upon finalization of these rates (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 financial statements to reflect the difference between the combined accrual rate and the DOC rates for POR3. In addition, once final, the Company's current combined cash deposit rate of 19.54% will be reset to the DOC rates for POR3 (currently estimated to be 6.75% based on the preliminary determination).

On January 1, 2021, the Company moved into the fourth period of review ("POR4"), which is based on sales and cost data in 2021. 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 2.63% for January 1 to November 30, 2021, and 2.42% for December 2021 in POR4, while ADD was expensed at an estimated rate of 7.00% for the three and twelve months ended December 31, 2021, resulting in a combined CVD and ADD accrual rate of 9.63% for January 1 to November 30, 2021 (versus the cash deposit rate of 4.62%) and 9.42% for December 2021 (versus the cash deposit rate of 19.54%). Despite cash deposits being made in 2021 at rates determined by the DOC, the final liability associated with duties is not determined until the completion of administrative reviews performed by the DOC.

Summary

A summary of the various combined rates is as follows:

Time Period	Deposit Rate	Accrued Rate	Final DOC Rate	Description
April 2017 – December 2018	20.52%	15.84%	4.62%	First Period of Review ("POR1")
January 2019 – December 2019	20.52%	29.24%	19.54%	POR2
January 2020 – November 30, 2020	20.52%	18.24%	Anticipated in 2022	POR3
December 2020	4.62%	7.63%	Anticipated in 2022	POR3
January 2021 – November 30, 2021	4.62%	9.63%	Anticipated in 2023	POR4
December 2021	19.54%	9.42%	Anticipated in 2023	POR4

Despite the finalization of the rates for POR1 and POR2 and preliminary rates for POR3, no cash duties will be refunded to the Company until the litigation regarding the imposition of CVD and ADD has been settled.

For accounting purposes, a net duty deposits recoverable of $188.4 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 twelve months ended December 31, 2021 the Company recorded a net duty expense of $100.4 million (three months ended December 31, 2021 – net duty recovery of $1.1 million), comprised of cash deposits paid of $88.5 million (three months ended December 31, 2021 – $26.4 million), the aforementioned recovery related to the finalization of rates for POR2, and net additional expense of $60.6 million (three months ended December 31, 2021 – $21.2 million):

Effective duties (millions of Canadian dollars, unaudited)		**2021**
Cash deposits paid in 2021	**$**	**88.5**
Duty expense attributable to POR4 – ADD (7.00% versus cash deposit rate)[2,3]		**60.6**
Duty recovery attributable to POR2 – CVD (2.42% versus 13.24%)[4]		**(63.7)**
Duty expense attributable to POR2 – ADD (17.12% versus 16.00%)[5]		**15.0**
Duty expense, net	**$**	**100.4**

[2] ADD cash deposit rate of 1.99% applicable from January – November 2021 and 17.12% for December 2021.

[3] Reflects Canfor's estimated ADD accrual rate for POR4 determined by applying DOC methodology to sales and cost data in 2021.

[4] Reflects the DOC's initial CVD cash deposit rate of 13.24% (versus the DOC's final CVD rate of 2.42%) determined by applying DOC methodology to sales and cost data from January 2019 to December 2019.

[5] Reflects Canfor's estimated ADD accrual rate of 16.00% for POR2 (versus the DOC's final ADD cash deposit rate of 17.12%) determined by applying DOC methodology to sales and cost data from January 2019 to December 2019.

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 (loss) while the Administrative Reviews are taking place. Changes to the DOC's existing CVD and ADD rates during the course of each Administrative Review may also result in material adjustments to the condensed consolidated statement of income (loss).

11. Restructuring, Mill Closure and Other Items, Net

On November 16, 2021, the Company completed the sale of its Fort Nelson forest tenure to Peak Fort Nelson Properties Ltd. for total proceeds of $30.0 million to be paid over multiple years. As a result, the Company recognized a gain of

$7.0 million in 'Restructuring, mill closure and other items, net' in the condensed consolidated statement of income (loss) for the three and twelve months ended December 31, 2021.

On February 24, 2022, the Company announced its intention to sell its forest tenure in the Mackenzie region to McLeod Lake Indian Band and Tsay Keh Dene Nation and that it had entered into a separate agreement with Peak Mackenzie Properties Ltd. to sell its Mackenzie sawmill assets, for combined proceeds of $70.0 million. During the three and twelve months ended December 31, 2021, the Company recognized a gain of $4.5 million in 'Restructuring, mill closure and other items, net' in the condensed consolidated statement of income (loss), reflecting the sale of certain Mackenzie sawmill assets during the fourth quarter of 2021.

12. Asset Impairments

In total for 2021, the Company recorded asset impairment charges of $293.5 million, allocated as follows:

(millions of Canadian dollars, unaudited)	Lumber Segment	Pulp and Paper Segment
Asset impairments		
Property, plant and equipment	**$ 94.5**	**$ 95.0**
Timber licenses	**104.0**	**-**
	$ 198.5	**$ 95.0**

In 2021, as a result of escalating log costs driven by an insufficient supply of economically viable timber following the Mountain Pine Beetle epidemic, wildfire events and a reduction in annual allowable cut in the Prince George Timber Supply Area as well as higher market-based stumpage, the Company performed an impairment test on its Western Canadian lumber operations cash-generating unit ("CGU") as at December 31, 2021.

The recoverable amount of the timber licenses and property, plant and equipment, within the Western Canadian lumber operations CGU was determined based on an assessment of value in use, estimated using a discounted cash flow model. This discounted cash flow model was projected based on past experience and actual operating results as well as Management's assessment of future trends in the forest industry, based on both external and internal sources of data. Significant assumptions include future production volume, commodity prices, log and production costs, as well as the discount rate. Other assumptions include applicable foreign exchange rates, operating rates of the assets, and the future capital required to maintain the assets in their current operating condition. Estimated future cash flows were discounted at a rate of 10% (14% before tax), based on the Company's weighted average cost of capital for that region in 2021.

This assessment resulted in an impairment charge of $198.5 million being recognized for the three and twelve months ended December 31, 2021, as a reduction to the carrying value of the Company's Western Canadian lumber operations in the lumber segment assets.

In addition, as a result of increased fibre cost pressures and ongoing uncertainty surrounding fibre availability for CPPI's pulp mills, the Company performed an impairment test as at December 31, 2021 on the property, plant and equipment of the pulp and paper CGU.

The recoverable amount of the property, plant and equipment within the pulp and paper CGU was determined based on an assessment of value in use, estimated using a discounted cash flow model. This discounted cash flow model was projected based on past experience and actual operating results as well as Management's assessment of future trends in the pulp and paper industry, based on both external and internal sources of data. Significant assumptions include future production volume, commodity prices, fibre and production costs, as well as the discount rate. Other assumptions include applicable foreign exchange rates, operating rates of the assets, and the future capital required to maintain the assets in their current operating condition. Estimated future cash flows were discounted at a rate of 8% (11% before tax), based on CPPI's weighted average cost of capital for 2021.

This assessment resulted in an impairment charge of $95.0 million being recognized for the three and twelve months ended December 31, 2021, as a reduction to the carrying value of pulp assets within the pulp and paper segment.

13. Commitments and Contingencies

(a) Coronavirus Outbreak

On March 11, 2020, the World Health Organization declared the coronavirus ("COVID-19") outbreak a pandemic. During the three and twelve months ended December 31, 2021, there have been no significant adverse impacts of COVID-19 on the Company. However, Management continues to closely monitor its effects on the Company's operating plan, liquidity, cash flows, and the valuation of its long-lived assets.

(b) Capital Commitments

On June 8, 2021, the Company announced its plans to construct a new sawmill near DeRidder, Louisiana. As at December 31, 2021, Canfor had made payments of $82.9 million (US$65.4 million) related to the construction of the sawmill and had estimated contractual commitments of $124.5 million (US$98.2 million) remaining; $112.1 million (US$88.4 million) of the commitments are expected to be settled within twelve months and $12.4 million (US$9.8 million) of the commitments are expected to be settled after twelve months.

14. Acquisitions

(a) V-Timber AB

On February 1, 2022, Vida completed the acquisition of V-Timber AB ("V-Timber") for total consideration of $13.0 million. V-Timber's operation is located in Vrigstad, Sweden, and consists of one value-added facility.

(b) Millar Western Sawmill Assets

On March 1, 2022, Canfor completed the acquisition of Millar Western Forest Products Ltd.'s ("Millar Western") solid wood operations and associated forest tenure for total consideration of $420.0 million, including $56.0 million in estimated working capital. Millar Western's solid wood operations, located in Alberta, Canada, consist of two sawmills and one high-value specialty facility.

The Company is in the process of reviewing working capital balances and assessing the valuation of timber licenses and property, plant and equipment acquired and will complete a preliminary purchase price allocation in the first quarter of 2022.