2022

MANAGEMENT'S DISCUSSION & ANALYSIS

CANFOR CORPORATION

2022 MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Throughout this discussion, reference is made to Operating Income before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Income before Amortization, Asset Write-Downs and Impairments and Adjusted Operating Income (Loss) which Canfor considers to be a relevant indicator for measuring trends in the performance of each of its operating segments and the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. Reference is also made to Adjusted Shareholder Net Income (Loss) (calculated as Shareholder Net Income (Loss) less specific items affecting comparability with prior periods – for the full calculation, see reconciliation included in the section "Overview of Consolidated Results – 2022 Compared to 2021") and Adjusted Shareholder Net Income (Loss) per Share (calculated as Adjusted Shareholder Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Income before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Income (Loss), Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share are not generally accepted earnings measures under IFRS and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, Canfor's Operating Income before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Income before Amortization, Asset Write-Downs and Impairments, Adjusted Operating Income (Loss), Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income before Amortization, Asset Write-Downs and Impairments to Operating Income (Loss) and Adjusted Shareholder Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in the "Non-IFRS Financial Measures" section of this MD&A.

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

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

All financial references are in millions of Canadian dollars unless otherwise noted. Certain comparative amounts have been reclassified to conform to current presentation. The information in this report is as at February 28, 2023.

Forward-Looking Statements

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

2022 HIGHLIGHTS

2022 was another strong year for Canfor, with the strength in global lumber market fundamentals experienced late in 2021 continuing well into the current year. Significant lumber demand led by solid activity in both new home construction and the repair and remodel segment, encountered tight supply due to supply chain disruptions. The result was ongoing global pricing pressure and high benchmark lumber prices through the first part of the year. As the year progressed, rising interest rates and inflation put significant downward pressure on housing affordability and global lumber market demand, leading to a rapid decline in global lumber market pricing in the latter part of the year. In response, the Company implemented reduced operating schedules at its Western Canadian operations. The Company's strong earnings, however, reflect the continued benefit of its global diversification strategy which helped to moderate these challenges in British Columbia ("BC").

Early in 2023, after an extensive analysis of its pulp mill operating footprint and the long-term supply of economic residual fibre, Canfor Pulp Products Inc. ("CPPI") made the decision to permanently close the pulp line at its Prince George Pulp and Paper Mill ("PG"). Similarly, in order to create a more sustainable operating footprint in BC and to better align manufacturing capacity with the available long-term fibre supply, the Company made the difficult decision to restructure its BC lumber operations by permanently closing its Chetwynd sawmill and pellet plant and temporarily closing its Houston sawmill for an extended period to facilitate a major redevelopment on the site. The Company intends to build a new, modern, globally competitive manufacturing facility that employs state of the art technology to produce high value products from the sustainable timber supply in that region. The Company is currently undertaking an evaluation of the availability of economic fibre and a thorough project financial analysis, and is targeting a final investment decision by the end of the second quarter of 2023.

Recognizing these permanent closures as well as the ongoing challenges to the business posed by fibre availability and costs, the Company recorded asset write-downs and impairments totaling $138.6 million in its results for the year ended December 31, 2022.

Before taking account of adjusting items, largely comprised of the aforementioned asset write-down and impairment charge, the Company's operating income was $1,306.2 million for the current year, down $897.8 million compared to the record-high adjusted operating earnings of $2,204.0 million for the prior year. The Company reported operating income of $1,074.1 million for 2022, versus operating earnings of $1,908.1 million for 2021.

For the lumber segment, adjusted operating income for 2022 was $1,421.9 million, the second highest earnings on record, but down $796.2 million year-over-year. Following the record-high lumber pricing in 2021, and notwithstanding the strong lumber market fundamentals through much of 2022, lumber segment results in the current year principally reflected an 11% decline year-over-year in the average Western Spruce/Pine/Fir ("SPF") 2x4 #2&btr and Southern Yellow Pine ("SYP") East 2x4 #2 price. This downward pricing pressure was coupled with the impact of high inflation on unit manufacturing costs as well as modestly lower production and shipment volumes in 2022, as transportation and market-related temporary curtailments at the Company's Western Canadian operations more than offset the addition of Millar Western Forest Product Ltd.'s ("Millar Western") solid wood operations in the first quarter of 2022.

Early in the year, North American lumber market conditions were very strong, principally led by strength in new home construction activity. This significant demand against a backdrop of tight supply, due to global supply chain disruptions, led to near record-high North American benchmark lumber pricing in the first quarter of 2022. Growing general economic uncertainty and inflation, however, led to a series of interest rate hikes during the year which eroded housing affordability. This resulted in a steady decline in residential home construction in the United States ("US") and a substantial drop in North American benchmark lumber prices, most notably through the second half of the year.

Strength in the repair and remodeling sector continued through much of 2022 largely driven by an aged housing stock and higher-than-normal consumer spending combined with a decline in North American benchmark lumber prices in the latter part of the year.

Throughout 2022, offshore lumber demand in Asia weakened as the year progressed. In China, the implementation of a zero-COVID strategy mid-year and the impacts of a severe summer heatwave immobilized economic activities in the region and resulted in reduced lumber consumption during the period. Demand in Japan and Korea declined throughout the year, due in part to the aforementioned restrictions in China, coupled with high inventory levels and inflationary cost pressures.

In Western Europe and Scandinavia, lumber demand and pricing was strong through the first half of the year, driven primarily by sustained residential construction and increased activity in the European repair and remodeling sector.

During the latter half of the year, however, the combined impact of reduced home building and lower do-it-yourself activity tied to high inflation and constrained consumer spending, gave rise to a decline in European lumber market pricing.

For the pulp and paper segment, 2022 was a difficult year, as strong global pulp market fundamentals and near-record high pulp list pricing were more than outweighed by the impact of global supply chain disruptions, fibre shortages in BC as well as operational efficiency and reliability challenges at all of CPPI's pulp mills.

Before taking account of adjusting items, largely comprised of CPPI's asset-write down and impairment charge of $49.6 million, CPPI's operating loss was $58.6 million for the current year, down $90.5 million from the adjusted operating income of $31.9 million for the prior year.

Global pulp market conditions continued to strengthen through most of 2022, as persistent global supply chain challenges and unplanned global pulp supply outages were combined with high levels of post-pandemic global demand and gave rise to sustained periods of high global pulp pricing. Prices to China, the world's largest consumer of softwood pulp, continued its upward pricing momentum through the first half of 2022, reaching a near-record high of US$1,010 per tonne in July. However, as purchasing activity waned somewhat, prices to this region declined through the latter part of the year to end the year at US$885 per tonne. For the 2022 year as a whole, Northern Bleached Softwood Kraft ("NBSK") pulp list prices to China averaged US$949[1] per tonne, an increase of US$99 per tonne, or 12%, from 2021.

Further discussion on the more significant developments is provided in the "Overview of 2022" section of this document.

COMPANY OVERVIEW

Canfor is a global leader in the manufacturing of high-value low-carbon forest products including dimension and specialty lumber, engineered wood products, pulp and paper, wood pellets and green energy. Headquartered in Vancouver, BC, Canfor produces renewable products from sustainably managed forests, at more than 55 facilities across its diversified operating platform in Canada, the United States and Europe. The Company has a 70% interest in the Vida Group ("Vida"), one of Sweden's largest sawmilling companies and also owns a 54.8% interest in CPPI, which is one of the largest global producers of NBSK pulp and a leading producer of high performance kraft paper. As of December 31, 2022, Canfor employed 7,908 people, of which 1,196 are employed by CPPI.

Significant changes to the Company's business in 2022 and early in 2023 include the following:

- On February 15, 2022, the Company announced the permanent reduction of 150 million board feet of production capacity at its Plateau sawmill to resize the facility and align it with the available, sustainable timber supply in the region. This capacity reduction took effect in the second quarter of 2022 following the depletion of log inventory.
- On February 16, 2022, CPPI announced temporary capacity reductions at its Taylor Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill ("Taylor") in response to significant transportation shortages due to the unprecedented global supply chain crisis. On March 29, 2022, the curtailment was extended by six weeks due to ongoing high pulp inventory levels and continued through the balance of 2022. As a result of a reduction in the long-term supply of fibre in the Peace region, CPPI does not see a path forward at this time to restarting the Taylor mill and is exploring alternative uses for the site.
- On February 24, 2022, the Company entered into a Letter of Intent with McLeod Lake Indian Band and Tsay Keh Dene Nation to sell its forest tenure in the Mackenzie region of BC and a separate agreement with Peak Mackenzie Properties Ltd. ("Peak Mackenzie") to sell its Mackenzie site, plant and equipment for combined proceeds of $70.0 million.
- On March 1, 2022, the Company completed the purchase of Millar Western for total consideration of $434.0 million, including $99.0 million in net working capital.
- On March 30, 2022, the Company announced the implementation of reduced operating schedules at its Western Canadian sawmills effective April 4, 2022, due to the cumulative effects of the unprecedented global supply chain crisis. On May 26, 2022, the Company announced the continuation of reduced operating schedules and two-weeks of rotating downtime in July and August to help align production capacity with sustainable timber supply and available transportation. On September 19, 2022, the Company announced a two-week market-related curtailment beginning September 26, 2022 at the majority of its BC solid wood facilities followed by the resumption of reduced operating schedules until the end of 2022. On December 5, 2022, the Company announced further market-driven curtailments at its Western Canadian sawmills in December and January.

[1] Resource Information Systems, Inc.

Combined, these factors reduced Western SPF production by approximately 775 million board feet in 2022.

- On April 21, 2022, the Company announced it will invest approximately US$130 million to significantly upgrade and expand its sawmill and planer facility located in Urbana in Union County, Arkansas. The investment will increase annual production at the facility by approximately 115 million board feet, with improvements commencing in the third quarter of 2022 and taking approximately 18 months to complete.
- On April 26, 2022, Canfor announced the implementation of a comprehensive plan to achieve net-zero carbon emissions by 2050.
- On July 28, 2022, the Company announced it will invest approximately US$210 million to build a new, state-of-the-art sawmill complex in southern Alabama. The new sawmill will have an annual production capacity of approximately 250 million board feet with startup of the facility anticipated in the third quarter of 2024.
- On October 17, 2022, CPPI announced a two-week curtailment of NBSK production at its Intercontinental ("Intercon") mill due to the lack of available economic fibre. On December 19, 2022, CPPI announced an additional four-week fibre-driven curtailment at Intercon. Together, these curtailments reduced NBSK production by approximately 40,000 tonnes in the fourth quarter of 2022.
- On January 3, 2023, the Company announced an extension of BC sawmill curtailments in the month due to ongoing weak market conditions and lack of available economic fibre. These curtailments, when combined with the prior market-driven curtailment announcements, reduced Western SPF production by a further 121 million board feet in January 2023.
- On January 11, 2023, CPPI announced the right-sizing of its operating footprint to the long-term supply of economic residual fibre with the permanent closure of the pulp line at its PG mill, which will result in a reduction of approximately 280,000 tonnes of market kraft pulp annually.
- On January 25, 2023, the Company announced the restructuring of its BC operations to better align manufacturing capacity in the region with available long-term fibre supply, resulting in the permanent closure of its Chetwynd sawmill and pellet plant and temporary closure of its Houston sawmill for an extended period to facilitate a major redevelopment on the site. The Company intends to build a new, modern, globally competitive manufacturing facility that employs state of the art technology to produce high value products from the sustainable timber supply in that region. The Company is currently undertaking an evaluation of the availability of economic fibre and a thorough project financial analysis, and is targeting a final investment decision by the end of the second quarter of 2023. The aforementioned facilities will be closed following an orderly wind-down, expected to be completed in the second quarter of 2023, and will remove approximately 750 million board feet of annual Western SPF production capacity.

Lumber

Combined, as at December 31, 2022, Canfor's lumber operations had an annual production capacity of approximately 7.1 billion board feet of lumber. The majority of lumber produced by Canfor from its facilities is construction and high-value specialty grade dimension lumber that ranges in size from one by three inches to two by twelve inches and in lengths from six to twenty-six feet. A significant and increasing proportion of Canfor's lumber production is comprised of specialty products that command premium prices, and high-value products including Square Edge lumber for the North American market, J-grade lumber for the Japanese market, and machine stress rated ("MSR") lumber used in engineered applications such as roof trusses and floor joists. Canfor has expanded its product offering in recent years to include high-value engineered wood products, higher-grade MSR lumber, premium one-inch boards, as well as an array of custom specialty products, including strength-rated trusses, beams, and tongue-and-groove timber.

Canfor's North American lumber operations also include one finger-joint plant, two glulam plants, one whole log chipping plant and a trucking division. As at December 31, 2022, the Company operated pellet plants at the Chetwynd and Fort St. John sawmill sites. Canfor's North American lumber business segment also includes a 60% interest in Houston Pellet Inc., which has an annual capacity of approximately 225,000 tonnes of wood pellets. Canfor's European lumber operation includes its 70% interest in Vida's nine value-added facilities (including the manufacturing and sale of wood packaging and modular housing, industrial products and energy).

As at December 31, 2022, Canfor held approximately 10.3 million cubic metres (including Mackenzie) of annual harvesting rights for its solid wood operations under various forest tenures located in the interior region of BC and northern Alberta, and harvests logs from those tenures to supply its Western Canadian lumber operations. Any shortfalls in mill requirements are made up with wood purchased from other tenure holders in those areas. The wood fibre requirements in the US and Europe are met through open market purchases, substantially from private timberland owners.

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

Pulp and Paper

During 2022, Canfor's pulp and paper segment was comprised of three NBSK pulp mills and the Taylor BCTMP mill, all of which are owned and operated by CPPI in BC. In 2022, CPPI produced NBSK pulp, BCTMP and specialty paper. NBSK is a primarily bleached product, although unbleached and semi-bleached grades were also produced at the Prince George pulp and paper mill.

As at December 31, 2022, CPPI had an annual production capacity of approximately 1.1 million tonnes of northern softwood market kraft pulp, the significant majority of which was bleached to become NBSK pulp, and approximately 140,000 tonnes of kraft paper.

CPPI also owns the Taylor pulp mill, a BCTMP facility that has an annual production capacity of 230,000 tonnes.

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

Business Strategy

Canfor's overall business strategy and purpose is to be a global leader in supplying sustainable and innovative, quality wood-based products to high-value customers, accomplished by:

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

OVERVIEW OF 2022

Markets and Pricing

(i) Solid Wood

In 2022, strong global lumber market fundamentals experienced late in 2021 continued well into the year. Significant lumber demand led by continued strength in both new home construction activity and the repair and remodel segment, encountered tight supply due to supply chain disruptions. The result was ongoing global pricing pressure and high benchmark lumber prices through the first part of the year. However, as general economic uncertainty rose due to high inflation, progressive interest rate hikes materially impacted housing affordability, putting downward pressure on lumber markets. As supply chain constraints moderated, decreased demand was met with increasing levels of supply which resulted in a steep decline in global lumber benchmark pricing in the latter part of the year.

As a result, following the record-high pricing in 2021, the North American Random Lengths Western SPF 2x4 #2&btr price reached a peak of US$1,400[2] per Mfbm in March 2022. As mentioned however, as the year progressed, lumber demand across North America came increasingly under pressure and the Western SPF 2x4 #2&btr price experienced a rapid deceleration late in the year to end the year at US$345 per Mfbm.

For the year overall, the Western SPF 2x4 #2&btr price averaged US$783 per Mfbm, down US$97 per Mfbm, or 11%, from 2021 with similar decreases seen across key grades and widths of Western SPF lumber, as outlined in the table below. Premium lumber products such as J-grade, MSR and Square Edge, also experienced pricing pressure in the latter part of 2022, although less pronounced than the declines in Western SPF 2x4 #2&btr.

(Average Western SPF US$ price, per thousand board feet)[2]		2022		2021		Change
2x4 #2&Btr	**$**	**783**	$	880	$	(97)
2x4 #3	**$**	**615**	$	762	$	(147)
2x6 #2&Btr	**$**	**710**	$	853	$	(143)
2x10 #2&Btr	**$**	**814**	$	859	$	(45)

[2] Random Lengths Publications, Inc.

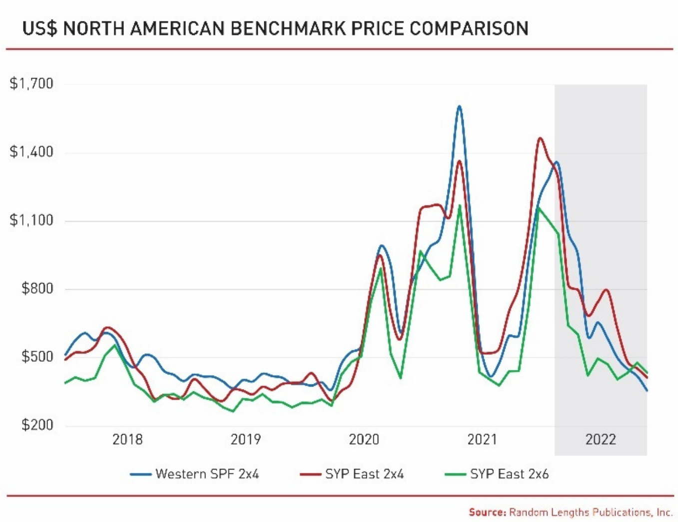
In 2022, the North American Random Lengths SYP East 2x4 #2 price moved similar to Western SPF, rising to an all-time high of US$1,515[3] per Mfbm in January and remaining above US$1,000 per Mfbm through March. By mid-June, the benchmark price had fallen 56% to US$665 per Mfbm before rebounding through the summer. Once prices began declining in August, however, they continued to fall quickly through the balance of the period, ending the year at US$395 per Mfbm. As a result, for 2022 overall, the SYP East 2x4 #2 price decreased US$101 per Mfbm, or 11%, from 2021.

Wider width SYP lumber products, including SYP East 2x6 #2, experienced similar trends throughout 2022 as Western SPF and SYP East 2x4 #2, albeit to a lesser degree, with the SYP East 2x6 #2 averaging US$642 per Mfbm for 2022, a decrease of US$57 per Mfbm, or 8%, from 2021, as highlighted in the table below.

(Average SYP East US$ price, per thousand board feet)[3]		2022		2021		Change
2x4 #2	**$**	**829**	$	930	$	(101)
2x6 #2	**$**	**642**	$	699	$	(57)
2x8 #2	**$**	**591**	$	692	$	(101)
2x10 #2	**$**	**652**	$	729	$	(77)
2x12 #2	**$**	**925**	$	989	$	(64)

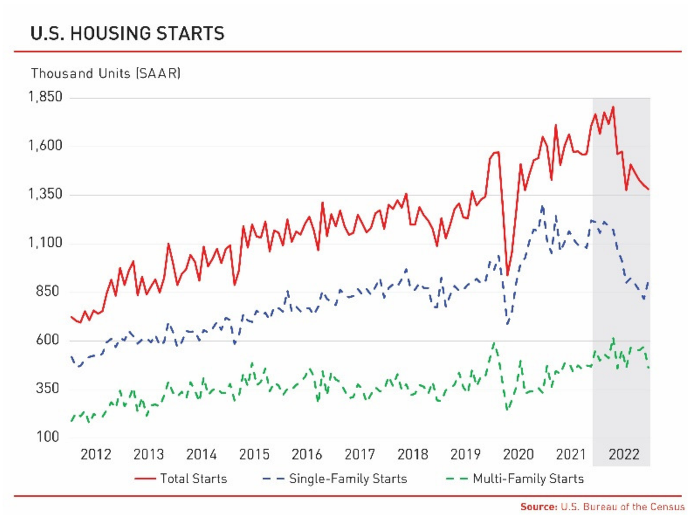
[3] Random Lengths Publications, Inc.

Chart 1

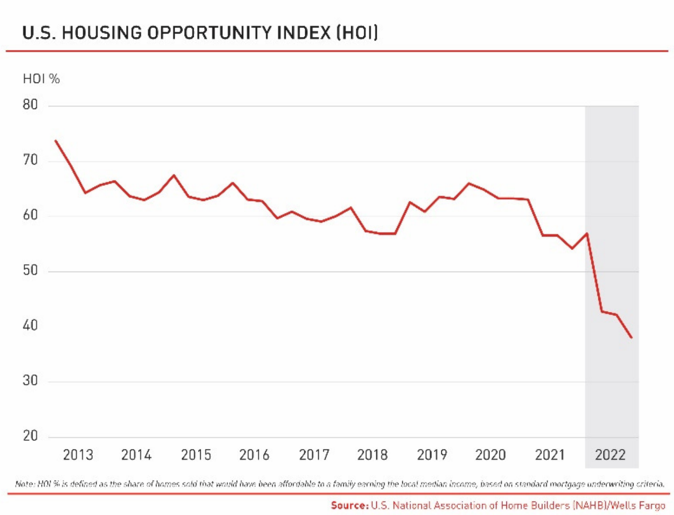


US housing starts, on a seasonally adjusted basis, averaged 1,555,000 units[4] in 2022, a decrease of 3% from 2021 (Chart 2). Single-family starts, which consume approximately three times more lumber than multi-family homes, were down 11% in 2022, falling to an annual low in November 2022, principally reflecting housing affordability challenges (Chart 3) stemming from high inflation and rising mortgage rates. Multi-family starts remained strong throughout 2022, up 14% from the previous year largely attributable to strength in the rental housing market, as housing affordability waned.

<u>Chart 2</u>



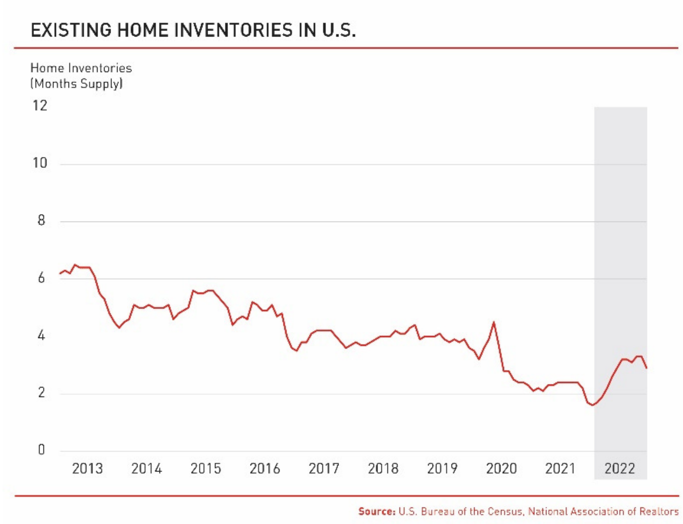
<u>Chart 3</u>



Total home inventory remained critically low throughout 2022. Existing home inventories remained well below historical levels during the period, beginning the year at 1.6 months' supply[4] before trending upwards and remaining above 3.0 months' supply through the latter half of the year (Chart 4). At the same time, the number of units under construction increased significantly year-over-year, with the gap between completions and housing starts beginning to close in the fourth quarter of 2022.

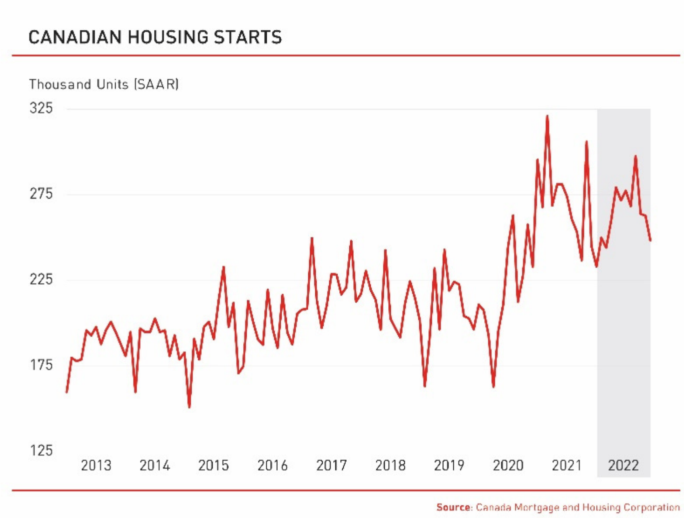
[4] Source: US Bureau of the Census

Chart 4



The Canadian housing market weakened through 2022, with housing starts, at 263,000 units[5] on a seasonally adjusted basis, down 4% compared to 2021 (Chart 5), and multi-family starts making up 70% of overall starts in 2022 (2021: 66%). Despite falling 4% from the previous year, Canadian housing starts remained well above historical norms as demand for housing in urban centres continued to grow year-over-year.

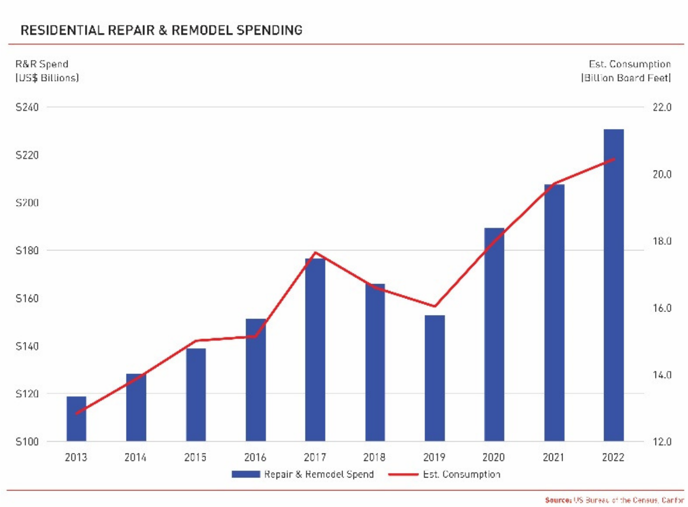
Chart 5



The repair and remodeling sector remained strong throughout most of 2022. Although disposable income levels declined during the year, lower building material costs tied to benchmark pricing declines and high demand for professional grade repair and remodel work amidst labour shortages supported high levels of activity in the sector (Chart 6).

[5] Canada Mortgage and Housing Corporation ("CMHC")

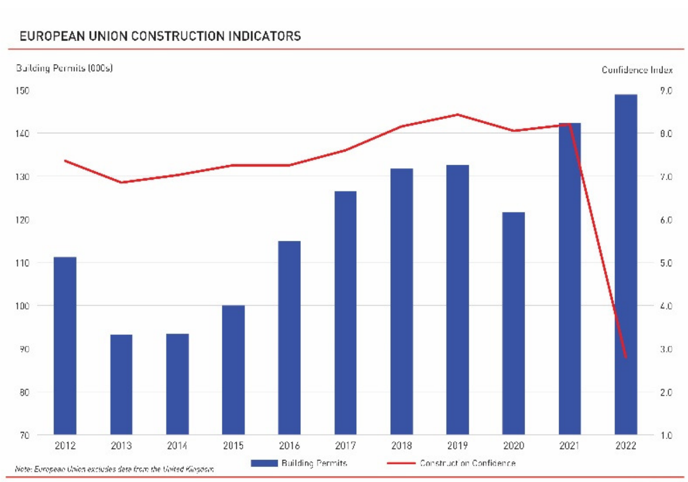
Chart 6



Offshore lumber demand in Asian markets weakened compared to the prior year as labour shortages and global inflation hampered economic output in the region. China was also impacted by strict testing and quarantine policies associated with its zero-COVID strategy, as well as a severe heatwave which caused factory closures and reduced lumber consumption during the period. Demand in Japan and Korea also declined throughout the year, due in part to the aforementioned restrictions in China, coupled with high inventory levels and inflationary cost pressures.

European lumber market demand and pricing was strong through the first half of the year, despite the challenging geo-political environment, due to sustained levels residential construction activity and strong demand in the repair and remodeling sector. During the latter half of the year, however, the combined impact of reduced home building and do-it-yourself activity[6] (Chart 7) tied to high inflation and constrained consumer spending, led to significant pricing pressure in the European lumber market.

Chart 7



The Canadian dollar weakened against the US-dollar in 2022, averaging $0.768[7] per US-dollar, down 3 cents, or 4%, from 2021, and significantly strengthened against the Swedish Krona ("SEK"), averaging 7.753[7] per SEK, up 13%, in the current year.

[6] Source: Eurostat
[7] Bank of Canada (monthly average for the period)

(ii) Pulp

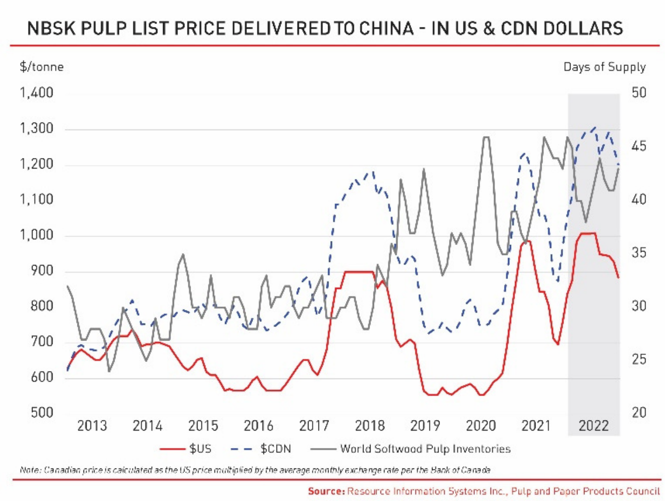
Global pulp market conditions were very strong throughout most of 2022. The upward pricing momentum experienced in the latter part of 2021 continued into the first half of 2022, as global pulp markets tightened significantly, primarily driven by global transportation challenges, inflationary cost pressures as well as unplanned global production outages. Towards the end of the year, however, market fundamentals came under pressure as a moderation in purchasing activity from China was combined with an uplift in global pulp market supply, principally reflecting the combined impact of incremental softwood supply in Europe and additional hardwood pulp capacity from South America.

As a result, NBSK pulp list prices to China reached near-record highs mid-2022, and for the 2022 year averaged US$949 per tonne, US$99 per tonne, or 12%, higher than the 2021 average price. Prices weakened somewhat, however, late in the year, in response to slowing demand and an increase in supply, ending the year at US$885 per tonne. North American pulp prices experienced similar trends to Asia with list prices to that region showing a notable improvement from US$1,450 per tonne in January to a peak of US$1,805 per tonne mid-2022, before declining to US$1,720 per tonne in December (before taking account of customer discounts, which were broadly unchanged year-over-year).

Global softwood pulp producer inventories started 2022 at 43[8] days of supply, and continued to increase through the first quarter of 2022, as supply chain delays and congestion led to longer delivery times for pulp buyers, contributing to lean consumer inventories and ongoing pricing pressure. As the year progressed, these conditions continued and global softwood pulp inventories stayed at the high end of the balanced range, ending the year at 43 days of supply. Market conditions are generally considered balanced when inventories are in the 32-43[8] days of supply range.

The following charts show the NBSK pulp list price movements in 2022, before taking account of customer discounts and rebates (Chart 8), global pulp shipments by destination (Chart 9), and the global pulp inventory levels (Chart 10).

Chart 8



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

Chart 9

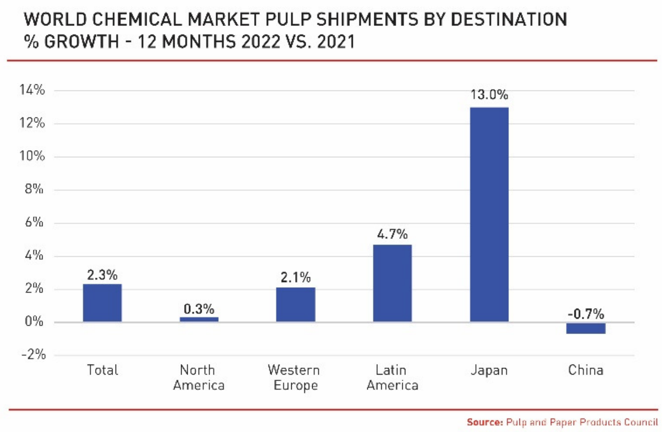
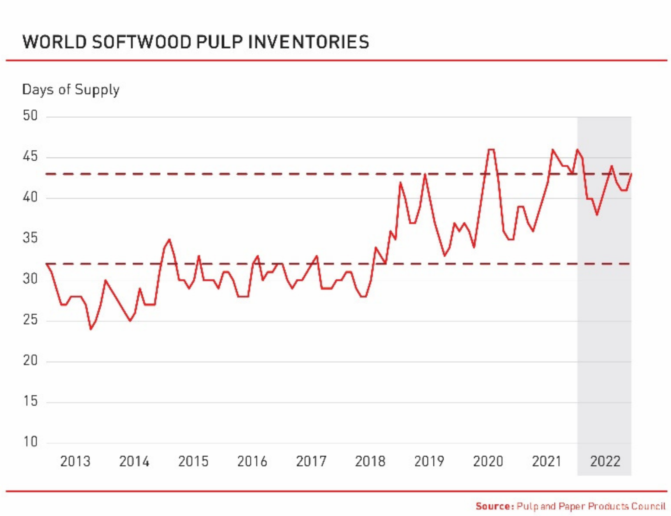


Chart 10



Solid Wood Operations – External Growth and Capital Investments

The Company's confidence in the longer-term prospects for the lumber industry has driven an investment strategy over the last 10 years aimed at positioning itself as a top-quartile margin performer, with greater global and product diversification.

In support of this objective, the Company has completed a number of targeted strategic external growth and capital initiatives at its sawmills over the years, all aimed at enhancing the quality and value offering of products to its customers from a top-tier productivity and cost position. These strategic capital investments have been designed to support the Company's high-value and diversification focus, allowing the Company to improve the financial margins and value from its operations in Western Canada, the US South and Europe.

For 2022, capital investments in the lumber segment, including acquisitions, totaled $941.7 million, up $559.0 million, or 146%, from 2021.

In the current year, strategic initiatives in Western Canada included the acquisition of Millar Western's solid wood operations and tenure. These assets, located in Alberta, Canada, added approximately 630 million board feet of annual production capacity and consist of three well-capitalized operations with access to high-quality sustainable fibre supply, including two sawmills in Whitecourt and Fox Creek, and a high-value, specialty Spruceland Millworks facility in Acheson dedicated to serving strategic markets and focused on generating higher, more stable returns.

In the US South, capital investments in 2022 were focused on the ongoing construction of the new, state-of-the-art greenfield sawmill in DeRidder, Louisiana, which is scheduled to commence production in the first quarter of 2023, as well as spend associated with the significant upgrade and expansion of the Urbana sawmill in Union County, Arkansas. In addition, the Company announced mid-year that it will invest in a new world-class facility in southern Alabama. This new facility's versatility and flexibility will enhance the Company's ability to more closely align production of high-quality products with customer and market demands. With the start of this facility anticipated to be in the later part of 2024, capital investment spend in this facility will occur in 2023 and 2024. Following completion of these initiatives, the Company's total SYP operating capacity is anticipated to be approximately 2.5 billion board feet.

Strategic initiatives in Europe in 2022, included the acquisition of V-Timber AB ("V-Timber"), adding approximately 60 million board feet of annual production capacity. Looking forward, the Company's European operations has planned capital investments aimed at increasing drying and sorting capacity at the Company's Borgstena, Alvesta and Vislanda sawmills, which combined, will add approximately 115 million board feet of annual production capacity in 2023.

When taking into consideration planned capital investments (including the aforementioned projects in Louisiana, Arkansas and Alabama, as well as the capital investments in Sweden) and the impact of the permanent closure of the Chetwynd sawmill and temporary closure of the Houston sawmill (announced in January 2023), the Company's total operating capacity remains at approximately 7.1 billion board feet.

Solid Wood Operations – Fibre Supply in British Columbia

Since the beginning of 2019, industry-wide rationalization in BC has removed approximately 3 billion board feet of annual Western SPF production capacity. In recent years, in many areas of the province, the annual allowable cut ("AAC") has been reduced through Timber Supply Review determinations of applicable AAC by the BC Government. The AAC in the BC Interior has also been impacted by the Mountain Pine Beetle ("MPB") infestation, losses resulting from wildfire events, forest policy decisions, as well as other pressures on BC's Timber Harvesting Land Base.

In late 2021, the BC Government announced its intention to defer the harvest of 2.6 million hectares of BC's old-growth forests. Industry-wide analysis indicates that these deferrals, if made permanent, would result in the removal of close to 1.4 million hectares from the Timber Harvesting Land Base and a reduction in AAC by approximately 4 million cubic metres, of which 70% of this reduction is in the BC Interior. Other BC Government policies and legislative initiatives, including with respect to the redistribution of Crown tenure in the province to Indigenous Nations, creates additional uncertainty for the industry.

Looking forward, these factors are anticipated to continue to constrain AAC in the BC Interior. Furthermore, the Company's access to economically viable timber could be further impacted by unsettled land and title claims by various Indigenous Nations in BC. The impacts of BC's *Declaration on the Rights of Indigenous Peoples Act*, the federal government's Bill C-15, the William decision[9] and the Blueberry River decision[10] on the timber supply from Crown lands and on the Company's operations is unknown at this time, especially as they pertain to the Company's current timber supply and operational activities. As well, the Company does not know the extent to which these rulings or decisions will lead to changes in BC or federal laws or policies which may affect its forestry operations. However, it is anticipated that there will be adverse impacts on available timber supply and operational consequences associated with the outcome of these ongoing negotiations and issues.

The Company has taken a number of actions in recent years in response to these fibre constraints, including securing access to high-quality fibre and modifying manufacturing and harvesting operations to optimize the harvest of green, non-pine leading stands. While the near-term outlook in BC remains challenging given the mid-term fibre supply constraints, this province remains an important part of our diversified operating platform, allowing us to serve customers around the globe, while providing good family supporting jobs here.

As a result of the fibre constraints, in January 2023, the Company announced the restructuring of its BC operations to better align manufacturing capacity with the long-term available fibre supply by permanently closing its Chetwynd sawmill and pellet plant, and temporarily closing its Houston sawmill for an extended period to facilitate a potential major redevelopment on the site.

[9] In June 2014, the Supreme Court of Canada, recognized Indigenous title for the Tsilhqot'in Nation over approximately 1,750 square kilometres of land in central BC

[10] In 2021, the BC Supreme Court released its decision in Yahey v British Columbia, in which it ruled that the Crown had unjustifiably infringed the Treaty 8 rights of the Blueberry River First Nation ("BRFN") in permitting the cumulative impacts of industrial development to meaningfully diminish BRFN's ability to exercise its treaty rights in its traditional territory.

In recognizing these closures, as well as the increased fibre cost pressure and ongoing uncertainty surrounding fibre availability, the Company recorded an asset write-down and impairment charge on its Western Canadian lumber operations of $89.0 million in its results for the year ended December 31, 2022.

Further discussion on the fibre-related uncertainties faced by the Company's BC sawmills is provided in the "Risk and Uncertainties" section of this MD&A.

Pulp and Paper – Fibre Supply

Over the last few years, like other central and northern BC Interior pulp producers, CPPI's supply of sawmill residual chips has been significantly reduced, primarily driven by extensive permanent sawmill curtailments and closures 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 as well as higher transportation costs.

CPPI has taken a number of actions in response to these fibre constraints, including securing additional fibre supply, prioritizing discretionary capital spend on optimizing fibre procurement and maximizing fibre utilization and recovery. However, there remains significant uncertainty with regards to the future of economically viable fibre within BC and it is expected that the long-term aggregate available chip supply will continue to decline.

As a result, subsequent to year-end, CPPI announced the restructuring of its BC operating footprint to align its manufacturing capacity with the long-term supply of economic residual fibre with the permanent closure of the pulp line at its PG mill.

In recognizing this permanent closure, combined with the ongoing challenges to the business posed by fibre availability and costs, CPPI recorded an asset write-down and impairment charge totaling $49.6 million in its results for the year ended December 31, 2022.

Pulp and Paper – Operations

From an operational perspective, 2022 was an extremely challenging year for CPPI, as supply chain and fibre-related headwinds were combined with capital and maintenance outages, which together, resulted in pulp production for the year of 718,000 tonnes, down 300,000 tonnes, or 29%, from the prior year.

In the first half of the year, significant transportation shortages in BC disrupted operating rates at all of CPPI's pulp mills, as NBSK pulp production was limited to available transportation and CPPI's Taylor mill was indefinitely curtailed. Following the completion in mid-April of CPPI's Northwood NBSK pulp mill's ("Northwood") recovery boiler number one ("RB1") capital upgrade, CPPI successfully completed scheduled maintenance outages at both Northwood and Intercon and saw a resultant improvement in NBSK productivity. However, in the latter part of the year, CPPI's supply of sawmill residual chips came under significant pressure, mostly as a result of market-driven temporary sawmill curtailments in the BC Interior, and when combined with winter weather conditions, placed a considerable strain on the operating performance of CPPI's pulp mills. In addition, as a result of these fibre constraints, CPPI took temporary production curtailments at its Intercon pulp mill in the fourth quarter of 2022, which continued through January 2023. Combined, these factors reduced NBSK pulp production by approximately 300,000 tonnes and BCTMP production by 210,000 tonnes in 2022.

Capital spending in 2022 totaled $112.6 million and was principally comprised of Northwood's RB1 lower furnace replacement early in the year, combined with maintenance-of-business capital spending.

Notwithstanding the aforementioned permanent closure that will occur in the first quarter of 2023, looking forward CPPI is focused on optimizing its smaller but sustainable operating footprint, improving operational reliability and closely managing its manufacturing and fibre costs, and anticipates capital spending in 2023 to be focused on these objectives.

Environmental, Social and Governance ("ESG") Strategy, Reporting and Related Risks

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

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

The Company is actively monitoring the changing landscape of ESG reporting regulations and has aligned disclosures with the Global Reporting Initiative ("GRI"), the recommendations from the Task Force on Climate-Related Financial Disclosures ("TCFD") and with the standards of the Sustainability Accounting Standards Board ("SASB").

More detailed information on the Company's sustainability strategy and performance is provided in the annual Sustainability Report (to be issued in the second quarter of 2023) and at https://sustainability.canfor.com.

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

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

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

OVERVIEW OF CONSOLIDATED RESULTS – 2022 COMPARED TO 2021

Selected Financial Information and Statistics

(millions of Canadian dollars, except for per share amounts)		**2022**		2021
Sales	**$**	**7,426.7**	$	7,684.9
Operating income before amortization, asset write-downs and impairments[11,12]	**$**	**1,609.9**	$	2,578.4
Operating income	**$**	**1,074.1**	$	1,908.1
Adjusted operating income before amortization, asset write-downs and impairments[11,12,13]	**$**	**1,703.4**	$	2,580.8
Adjusted operating income[13]	**$**	**1,306.2**	$	2,204.0
Net income	**$**	**861.1**	$	1,458.8
Net income attributable to equity shareholders of the Company	**$**	**787.3**	$	1,341.6
Net income per share attributable to equity shareholders of the Company, basic and diluted	**$**	**6.39**	$	10.74
Adjusted net income[13]	**$**	**880.4**	$	1,530.2
Adjusted net income per share, basic and diluted[13]	**$**	**7.15**	$	12.25
ROIC – Consolidated[13]		**26.0%**		55.4%
Average exchange rate (US$ per Cdn$1.00)[14]	**$**	**0.768**	$	0.798
Average exchange rate (SEK per Cdn$1.00)[14]		**7.753**		6.839

[11] Amortization includes amortization of certain capitalized major maintenance costs.
[12] Adjusted for asset write-down and impairment charges of $138.6 million in 2022 (2021 – $293.5 million).
[13] Adjusted results and consolidated ROIC are non-IFRS financial measures. Refer to the "Non-IFRS Financial Measures" section for further details. Effective Q1 2022, results were no longer adjusted for restructuring and mill closure costs. Prior periods above have been restated to reflect this change ($8.4 million expense in Q4 2021 and $11.2 million in YTD 2021).
[14] Source – Bank of Canada (monthly average for the period).

Selected Cash Flow Information

(millions of Canadian dollars)	2022	2021
Operating income (loss) by segment:		
Lumber	$ 1,237.2	$ 2,019.6
Pulp and Paper	$ (106.0)	$ (65.5)
Unallocated and Other	$ (57.1)	$ (46.0)
Total operating income	**$ 1,074.1**	$ 1,908.1
Add: Amortization[15]	$ 397.2	$ 376.8
Add: Asset write-downs and impairments	$ 138.6	$ 293.5
Total operating income before amortization, asset write-downs and impairments	**$ 1,609.9**	$ 2,578.4
Add (deduct):		
Working capital movements	$ 94.6	$ (383.3)
Defined benefit plan contributions, net	$ (12.2)	$ (13.6)
Income taxes paid, net	$ (462.6)	$ (273.6)
Adjustment to accrued duties[16]	$ (156.3)	$ 11.9
Other operating cash flows, net[17]	$ 39.6	$ (4.9)
Cash from operating activities	**$ 1,113.0**	$ 1,914.9
Deduct:		
Capital additions	$ (625.3)	$ (428.2)
Finance expenses paid	$ (21.1)	$ (25.1)
Repayments of term debt	$ (0.4)	$ (422.8)
Share purchases	$ (78.9)	$ (19.2)
Cash distributions to non-controlling interests	$ (62.8)	$ (19.7)
Acquisition of Millar Western	$ (434.0)	$ -
Phased acquisition of Elliott	$ -	$ (38.2)
Other, net[17]	$ 14.3	$ (32.5)
Change in cash / operating loans	**$ (95.2)**	$ 929.2

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

Analysis of Specific Items Affecting Comparability of Shareholder Net Income

After-tax impact, net of non-controlling interests

(millions of Canadian dollars, except for per share amounts)	2022	2021
Shareholder net income, as reported	**$ 787.3**	$ 1,341.6
Foreign exchange loss (gain) on term debt	$ 10.8	$ (5.5)
Loss (gain) on derivative financial instruments	$ (2.5)	$ 11.2
Asset write-downs and impairments	$ 84.8	$ 182.9
Net impact of above items	$ 93.1	$ 188.6
Adjusted shareholder net income[18]	**$ 880.4**	$ 1,530.2
Shareholder net income per share (EPS), as reported	**$ 6.39**	$ 10.74
Net impact of above items per share	$ 0.76	$ 1.51
Adjusted shareholder net income per share[18]	**$ 7.15**	$ 12.25

[18] Adjusted shareholder net income is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details. Effective Q1 2022, net income and net income per share were no longer adjusted for the after-tax impact of restructuring and mill closure costs. Prior periods above have been restated to reflect this change (favourable per share impact of $0.07 in Q4 2021 and $0.09 in YTD 2021).

OPERATING RESULTS BY BUSINESS SEGMENT – 2022 COMPARED TO 2021

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

Lumber

Selected Financial Information and Statistics – Lumber

Summarized results for the Lumber segment for 2022 and 2021 are as follows:

(millions of Canadian dollars, unless otherwise noted)		**2022**		2021
Sales[19]	**$**	**6,341.3**	$	6,540.5
Operating income before amortization, asset write-down and impairment[19]	**$**	**1,623.9**	$	2,506.2
Operating income[19]	**$**	**1,237.2**	$	2,019.6
Asset write-down and impairment	**$**	**89.0**	$	198.5
Inventory write-down, net	**$**	**95.7**	$	-
Adjusted operating income[20]	**$**	**1,421.9**	$	2,218.1
Capital expenditures (before acquisitions)	**$**	**507.7**	$	344.5
Average Western SPF 2x4 #2&Btr lumber price in US$[21]	**$**	**783**	$	880
Average Western SPF 2x4 #2&Btr lumber price in Cdn$[21,23]	**$**	**1,020**	$	1,102
Average SYP 2x4 #2 lumber price in US$[22]	**$**	**829**	$	930
Average SYP 2x4 #2 lumber price in Cdn$[22,23]	**$**	**1,079**	$	1,165
Average SYP 2x6 #2 lumber price in US$[22]	**$**	**642**	$	699
Average SYP 2x6 #2 lumber price in Cdn$[22,23]	**$**	**836**	$	876
US housing starts (thousand units SAAR) [24]		**1,555**		1,605
Production – Western SPF lumber (MMfbm)[25]		**2,321**		2,513
Production – SYP lumber (MMfbm)[25]		**1,618**		1,641
Production – European lumber (MMfbm)[25]		**1,363**		1,397
Shipments – Western SPF lumber (MMfbm)[26]		**2,325**		2,458
Shipments – SYP lumber (MMfbm)[26]		**1,610**		1,637
Shipments – European lumber (MMfbm)[26]		**1,550**		1,528

[19] 2022 includes sales of $1,611.1 million, operating income of $420.8 million and operating income before amortization of $486.8 million from European operations (2021 – sales of $1,697.2 million, operating income of $555.7 million and operating income before amortization of $631.3 million). Operating income from the European operations in 2022 includes $37.2 million (2021 - $42.1 million) of incremental amortization and other expenses driven by the purchase price allocation at the acquisition date.
[20] Adjusted operating income is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[21] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.)
[22] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.)
[23] Average lumber prices in Cdn$ calculated as average price in US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average for the period.
[24] Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").
[25] Excluding production of trim blocks.
[26] Includes Canfor produced lumber, as well as lumber purchased for resale, remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

Markets

As highlighted in the "Overview of 2022: Markets and Pricing – Solid Wood" section of this document, in 2022, the strong global lumber market fundamentals experienced late in 2021 continued well into the year. Significant lumber demand led by continued strength in both new home construction activity and the repair and remodel segment, encountered tight supply due to supply chain disruptions. The result was ongoing global pricing pressure and high benchmark lumber prices through the first part of the year. However, as general economic uncertainty rose due to high inflation, progressive interest rate hikes materially impacted housing affordability putting downward pressure on lumber markets. As supply chain constraints moderated, decreased demand was met with increasing levels of supply which resulted in a steep decline in global lumber benchmark pricing in the latter part of the year.

In the repair and remodeling sector, strength continued through much of 2022 largely driven by an aged housing stock and higher-than-normal consumer spending combined with a decline in North American benchmark lumber prices in the latter part of the year.

US housing starts, on a seasonally adjusted basis, averaged 1,555,000 units in 2022, a decrease of 3% from 2021. Single-family starts, which consume approximately three times more lumber than multi-family homes, were down 11% in 2022, falling to an annual low in November 2022, principally reflecting housing affordability challenges stemming from high inflation and rising mortgage rates. Multi-family starts remained strong throughout 2022, up 14% from the previous year largely attributable to strength in the rental housing market, as housing affordability waned.

In Canada, the housing market weakened somewhat through 2022, with housing starts, at 263,000 units on a seasonally adjusted basis, down 4% compared to 2021, and multi-family starts making up 70% of overall starts in 2022 (2021: 66%). Despite falling 4% from the previous year, Canadian housing starts remained well above historical norms as demand for housing in urban centres continued to grow year-over-year.

Offshore lumber demand in Asian markets weakened compared to the prior year as labour shortages and global inflation hampered economic output in the region. China was also impacted by strict testing and quarantine policies associated with its zero-COVID strategy, as well as a severe heatwave which caused factory closures and reduced lumber consumption during the period. Demand in Japan and Korea declined throughout the year, due in part to the aforementioned restrictions in China, coupled with high inventory levels and inflationary cost pressures.

European lumber market demand and pricing was strong through the first half of the year, despite the challenging geo-political environment, due to sustained levels residential construction activity and strong demand in the repair and remodeling sector. During the latter half of the year, however, the combined impact of reduced home building and do-it-yourself activity, tied to high inflation and constrained consumer spending, led to significant pricing pressure in the European lumber market.

<u>Sales</u>

Revenues for the lumber segment were $6.3 billion for 2022, down 3% from record-high sales of $6.5 billion in 2021. This decline was primarily due to lower unit sales realizations, particularly in Western Canada and Europe, driven by the significant drop in global lumber pricing year-over-year, combined with 2% lower shipment volumes and a 13% stronger Canadian dollar (versus the SEK). These factors outweighed the benefit of a 3 cent, or 4%, weaker Canadian dollar (versus the US-dollar) in the current year.

Total lumber shipments were approximately 5.49 billion board feet for the year, down 2% from 5.62 billion board feet shipped in the previous year, largely due to the 4% decrease in production volumes year-over-year, most notably in Western Canada.

Following the record-high pricing in 2021, the North American Random Lengths Western SPF 2x4 #2&btr price reached a peak of US$1,400 per Mfbm in March 2022. However, as the year progressed, lumber demand across North America came increasingly under pressure and the Western SPF 2x4 #2&btr price experienced a rapid deceleration. As a result, the North American Random Lengths Western SPF 2x4 #2&btr price ended the year at US$345 per Mfbm. For the year overall, the Western SPF 2x4 #2&btr price averaged US$783 per Mfbm, down US$97 per Mfbm, or 11% from 2021. The Company's Western SPF unit sales realizations principally reflected the decline in North American benchmark pricing year-over-year, combined with lower offshore unit sales realizations, offset in part by the 4% weaker Canadian dollar (versus the US-dollar).

In 2022, the North American Random Lengths SYP East 2x4 #2 price moved similar to Western SPF, rising to an all-time high of US$1,515 per Mfbm in January and remaining above US$1,000 per Mfbm through March. By mid-June, the benchmark price had fallen 56% to US$665 per Mfbm before rebounding through the summer. Once prices began declining in August, however, they continued to fall quickly through the balance of the period, ending the year at US$395 per Mfbm. As a result, for 2022 overall, the SYP East 2x4 #2 price decreased US$101 per Mfbm, or 11%, from 2021. Wider width SYP lumber products, including SYP East 2x6 #2, experienced similar trends throughout 2022 as Western SPF and SYP East 2x4 #2, albeit to a lesser degree, with the SYP East 2x6 #2 averaging US$642 per Mfbm for 2022, a decrease of US$57 per Mfbm, or 8%, from 2021. These SYP benchmark pricing declines were offset by an uplift in unit sales realizations for high value specialty lumber products in the current year. As a result, the Company's average SYP lumber unit sales realizations for 2022 were only slightly lower than 2021.

European lumber unit sales realizations experienced a moderate decrease year-over-year principally reflecting a decline in European market pricing tied to the deterioration in global lumber market conditions in the latter part of the year, combined with the 13% stronger Canadian dollar (versus the SEK).

Other revenues for the lumber segment (which are primarily comprised of residual fibre, pulp log and pellet sales as well as the Company's European operations' other related revenues) were substantially higher than the prior year, largely reflecting an increase in log sales in Western Canada year-over-year, and, to a lesser extent, an uplift in engineered wood products sales in the US South and residual fibre revenues.

Operations

Total lumber production for 2022 was 5.30 billion board feet, down 4% from the prior year, primarily reflecting temporary capacity reductions in Western Canada (driven by supply chain challenges early in the year and market-related pressures later in the year), offset in part by the addition of Millar Western in March 2022, as production in the US South and Europe were broadly comparable year-over-year.

Lumber unit manufacturing and product costs increased significantly in 2022, mostly driven by the impact of higher global energy costs and inflationary pressures on conversion costs across all lumber operating regions, as well as an uplift in log costs in North America. Higher log costs in Western Canada were largely driven by increased costs on hauling and logging activities in the current year, while an uplift in log costs in the US South principally reflected increased log demand in that region. Log costs in Europe were broadly in line with the prior year.

Asset Write-Downs and Impairments

In 2022, as a result of the announced permanent closure of the Chetwynd sawmill and pellet plant, combined with ongoing uncertainty with regards to economically viable timber supply within BC, an asset write-down and impairment charge in the Company's lumber segment totaling $89.0 million was recognized (2021 – $198.5 million). See "Critical Accounting Estimates – Asset Write-Downs and Impairments" for further details.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[27]

Summarized results for the Pulp and Paper segment for 2022 and 2021 are as follows:

(millions of Canadian dollars, unless otherwise noted)		**2022**		**2021**
Sales	**$**	**1,085.4**	$	1,144.4
Operating income before amortization, asset write-down and impairment[28]	**$**	**41.4**	$	116.8
Operating loss	**$**	**(106.0)**	$	(65.5)
Asset write-down and impairment	**$**	**49.6**	$	95.0
Inventory write-down (recovery), net	**$**	**(2.2)**	$	2.4
Adjusted operating income (loss)[29]	**$**	**(58.6)**	$	31.9
Capital expenditures	**$**	**112.6**	$	78.7
Average NBSK pulp price delivered to China - US$[30]	**$**	**949**	$	850
Average NBSK pulp price delivered to China - Cdn$[30]	**$**	**1,236**	$	1,065
Production – pulp (000 mt)		**718**		1,018
Production – paper (000 mt)		**132**		126
Shipments – pulp (000 mt)		**750**		1,007
Shipments – paper (000 mt)		**129**		127

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

Markets

As previously highlighted, global pulp market conditions were very strong throughout most of 2022. The upward pricing momentum experienced in the latter part of 2021 continued into the first half of 2022, as global pulp markets tightened significantly, primarily driven by global transportation challenges, inflationary cost pressures as well as unplanned global production outages. Towards the end of the year, however, market fundamentals came under pressure as a moderation in purchasing activity from China was combined with an uplift in global pulp market supply, principally reflecting the combined impact of incremental softwood supply in Europe and additional hardwood pulp capacity from South America.

As a result, NBSK pulp list prices to China reached near-record highs mid-2022, and for the 2022 year averaged US$949 per tonne, US$99 per tonne, or 12%, higher than the 2021 average price. Prices weakened somewhat, however, late in the year, in response to slowing demand and an increase in supply, ending the year at US$885 per tonne. North American pulp prices experienced similar trends to Asia with list prices to that region showing a notable improvement from US$1,450 per tonne in January to a peak of US$1,805 per tonne mid-2022, before declining to US$1,720 per tonne in December (before taking account of customer discounts, which were broadly unchanged year-over-year).

Global softwood pulp producer inventories started 2022 at 43[31] days of supply, and continued to increase through the first quarter of 2022, as supply chain delays and congestion led to longer delivery times for pulp buyers, contributing to lean consumer inventories and ongoing pricing pressure. As the year progressed, these conditions continued and global softwood pulp inventories stayed at the high end of the balanced range, ending the year at 43 days of supply. Market conditions are generally considered balanced when inventories are in the 32-43[31] days of supply range.

As previously mentioned, the post pandemic demand for food grade kraft paper products and home building supplies packaged in kraft paper remained strong throughout most of 2022, particularly in North America. Demand in offshore markets, that had been lagging North America, experienced an uptick in the first half of the current year and gave rise to increased global supply pressures for most of the period. In the latter part of the year, however, demand plateaued slightly as global kraft paper supply increased, and inventories started to return to more normalized levels.

Sales

Pulp shipments in 2022 were 750,000 tonnes, down 257,000 tonnes, or 26%, from 2021, principally reflecting a 29% reduction in pulp production year-over-year, offset in part by a drawdown in pulp inventory at the end of 2022.

As mentioned, for the 2022 year as a whole, NBSK pulp list prices to China averaged at near-record highs at US$949 per tonne, up US$99 per tonne, or 12%, compared to 2021. North American NBSK pulp list prices averaged US$1,704 per tonne for the current year, up US$226 per tonne, or 15%, year-over-year (before discounts, which were largely unchanged). Accordingly, average NBSK pulp unit sales realizations experienced a significant increase compared to 2021, amplified in part by the weaker Canadian dollar.

Energy revenues in 2022 were significantly down compared to the prior year as reduced pulp production led to a decline in turbine operating days year-over-year.

Paper shipments in 2022, at 129,000 tonnes, were broadly comparable to 2021. Paper unit sales realizations for the current year experienced a significant increase compared to the prior year, reflecting a notable improvement in US-dollar kraft paper prices throughout most of 2022 combined with the weaker Canadian dollar.

[31] World 20 data is based on twenty producing countries representing 80% of the world chemical market pulp capacity and is based on information compiled and prepared by the PPPC.

Operations

As previously mentioned, from an operational perspective, 2022 was an extremely challenging year for CPPI, as supply chain and fibre-related headwinds were combined with capital and maintenance outages, which together, resulted in pulp production for the year of 718,000 tonnes, down 300,000 tonnes, or 29%, from the prior year.

In the first half of the year, significant transportation shortages in BC disrupted operating rates at all of CPPI's pulp mills, as NBSK pulp production was limited to available transportation and CPPI's Taylor mill was indefinitely curtailed. Following the completion in mid-April of Northwood's RB1 capital upgrade, CPPI successfully completed scheduled maintenance outages at both Northwood and Intercon and saw a resultant improvement in NBSK productivity. However, in the latter part of the year, CPPI's supply of sawmill residual chips came under significant pressure, mostly as a result of market-driven temporary sawmill curtailments in the BC Interior, and when combined with winter weather conditions, placed a considerable strain on the operating performance of CPPI's pulp mills. In addition, as a result of these fibre constraints, CPPI took temporary production curtailments at its Intercon pulp mill in the fourth quarter of 2022, which continued through January 2023. Combined, these factors reduced NBSK pulp production by approximately 300,000 tonnes and BCTMP production by 210,000 tonnes in 2022.

In 2021, pulp production was most notably impacted by wildfires, flooding and intense cold which interrupted productivity at all of CPPI's pulp mills and contributed to transportation-related production curtailments at Northwood and Taylor. When combined with the commencement of Northwood's RB1 lower furnace replacement late in 2021, as well as scheduled outages at CPPI's Intercon, PG and Taylor pulp mills, pulp production in the prior year was reduced by approximately 195,000 tonnes.

Pulp unit manufacturing costs were substantially higher compared to the prior year, principally reflecting higher fibre costs, combined with an increase in pulp unit conversion costs associated with lower year-over-year production, as well as higher chemical and energy costs. The increase in fibre costs compared to 2021 largely reflected higher market-based prices for sawmill residuals (linked to higher Canadian NBSK pulp prices), and, to a lesser extent, an uplift in fibre transportation costs.

Paper production in 2022 was 132,000 tonnes, up 6,000 tonnes, from 2021, principally reflecting a slight improvement in operating rates as well as the favourable impact on paper production of no scheduled maintenance outage in 2022. In 2021, a scheduled maintenance outage reduced paper production by approximately 5,000 tonnes. Notably higher paper unit manufacturing costs in 2022 were primarily due to a significant increase in slush pulp costs (linked to higher Canadian dollar NBSK pulp market prices), and, to a lesser degree, higher chemical costs in 2022.

Asset Write-Down and Impairment

In 2022, CPPI recorded an asset write-down and impairment charge totaling $49.6 million (2021 – $95.0 million), driven by the announced permanent closure of CPPI's pulp line at PG combined with ongoing pressure on fibre costs and continued uncertainty surrounding general fibre availability for CPPI's pulp mills. See "Critical Accounting Estimates – Asset Write-Downs and Impairments" for further details.

Unallocated and Other Items

(millions of Canadian dollars)		**2022**		2021
Corporate costs	**$**	**(57.1)**	$	(46.0)
Finance income (expense), net	**$**	**1.0**	$	(24.1)
Foreign exchange gain on term debt and duty deposits recoverable, net	**$**	**2.4**	$	1.9
Gain (loss) on derivative financial instruments	**$**	**3.9**	$	(16.1)
Other income, net	**$**	**27.1**	$	27.0

Corporate Costs

Corporate costs were $57.1 million in 2022, up $11.1 million from 2021, largely due to the establishment of the Company's Good Things Come From Trees Foundation in the current year, and, to a lesser extent, higher consulting and legal costs associated with the acquisition of Millar Western.

Finance Income (Expense), Net

Net finance income for 2022 of $1.0 million, compared to net finance expense of $24.1 million in 2021, largely reflecting higher interest income associated with the Company's US-dollar short-term investments, as well as an increase in accrued interest income on recoverable duty deposits in the current year following the finalization of countervailing ("CVD") and anti-dumping duties ("ADD") rates for the third period of review ("POR3") (see the "Liquidity and Financial Requirements" and "Countervailing and Anti-Dumping Duties" sections for further discussion).

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

In 2022, the Company recognized a foreign exchange gain of $14.8 million on its US-denominated duty deposits receivable, offset by a $12.4 million loss on US-dollar term debt held by Canadian entities, both due to the weakening of the Canadian dollar at the close of 2022 relative to the exchange rate at the close of 2021 (see further discussion on term debt in the "Liquidity and Financial Requirements" section).

Gain (Loss) on Derivative Financial Instruments

At times, the Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in lumber prices, energy costs, interest and foreign exchange rates. In 2022, the Company recorded a net gain of $3.9 million (2021 – net loss of $16.1 million) in relation to its derivative financial instruments, which principally reflected unrealized mark-to-market gains on lumber futures contracts, and to a lesser extent realized mark-to-market gains on foreign exchange forward contracts (see further discussion in the "Liquidity and Financial Requirements" section).

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

(millions of Canadian dollars)	**2022**	2021
Lumber futures	**$ 2.0**	$ (12.7)
Foreign exchange forward contracts	**$ 1.9**	$ (3.4)
Gain (loss) on derivative financial instruments	**$ 3.9**	$ (16.1)

During 2022, a loss of $26.8 million (2021 – $3.5 million) was recognized in 'Other equity' on the Company's consolidated balance sheet following remeasurement of the put liability.

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

Other Income, Net

Other income, net of $27.1 million in 2022 was broadly in line with the prior year principally reflecting favourable foreign exchange movements on US-dollar denominated working capital and receivables held by the Canadian operations in the period. In 2021, other income, net of $27.0 million included favourable foreign exchange movements on US-dollar denominated working capital balances of the Canadian operations, as well as the receipt of final insurance proceeds related to CPPI's Northwood recovery boiler number five ("RB5") outage in 2018.

Income Tax Expense

The Company recorded an income tax expense of $247.4 million in 2022, compared to an expense of $438.0 million in 2021, with an overall effective tax rate of approximately 22% (2021 - 23%).

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

(millions of Canadian dollars)		2022		2021
Net income before income taxes	**$**	**1,108.5**	$	1,896.8
Income tax expense at statutory rate of 27% (2021 – 27%)	**$**	**(299.3)**	$	(512.1)
Add (deduct):				
Non-taxable income related to non-controlling interests	**$**	**0.3**	$	0.1
Entities with different income tax rates and other tax adjustments	**$**	**53.5**	$	72.9
Permanent difference from capital gains and losses and other non-deductible items	**$**	**(1.9)**	$	1.1
Income tax expense	**$**	**(247.4)**	$	(438.0)

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

In addition to the amounts recorded in net income, a tax expense of $9.9 million was recorded to other comprehensive income (loss) in relation to actuarial gains, net, on the defined benefit plans in 2022 (December 31, 2021 – $13.2 million).

Other Comprehensive Income (Loss)

(millions of Canadian dollars)		2022		2021
Defined benefit plan actuarial gains, net of tax	**$**	**26.9**	$	33.7
Foreign exchange translation of foreign operations, net of tax	**$**	**36.7**	$	(73.8)
Other comprehensive income (loss), net of tax	**$**	**63.6**	$	(40.1)

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

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

For 2021, a gain of $46.9 million (before-tax) was recorded to other comprehensive income (loss) related to changes in the valuation of the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), largely reflecting a 0.3% increase in the discount rate used to value the defined benefit plans, and to a lesser extent, a higher than anticipated return on plan assets.

As at December 31, 2022, one of the Company's registered defined benefit pension plans held $308.2 million of buy-in annuities purchased prior to 2019. Buy-in annuity contracts substantially mitigate the exposure to future volatility in pension plan obligations, as future cash flows from the annuities match the amount and timing of benefits payable under the plan. Subsequent to 2019, no buy-in annuities were purchased by the Company for this plan.

On December 31, 2022, the Company entered into contracts to convert all of its existing buy-in annuities to buy-out annuities. As a result of these contracts, the Company's buy-in annuity assets and corresponding accrued benefit obligation of $308.2 million were derecognized from the Company's consolidated balance sheet as at December 31, 2022.

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

The Company recorded an after-tax gain of $36.7 million in other comprehensive income (loss) in 2022 related to foreign exchange differences for foreign operations, largely reflecting a weaker Canadian dollar through the majority of 2022 relative to the US dollar, offset in part by a stronger Canadian dollar relative to the SEK, compared to one year earlier. This compared to an after-tax loss of $73.8 million in 2021 resulting from a weaker Canadian dollar relative to the SEK, offset by a stronger Canadian dollar relative to the US-dollar.

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's financial position as at December 31, 2022 and 2021:

(millions of Canadian dollars, except for ratios)	**2022**	2021
Cash and cash equivalents	**$ 1,268.7**	$ 1,354.8
Operating working capital (includes drawings on operating loans)	**$ 912.6**	$ 727.0
Net working capital	**$ 2,181.3**	$ 2,081.8
Property, plant and equipment	**$ 2,219.1**	$ 1,812.7
Right-of-use assets	**$ 99.1**	$ 65.5
Timber licenses	**$ 357.8**	$ 313.2
Goodwill and other intangible assets	**$ 532.1**	$ 514.8
Long-term investments and other (excluding deferred tax asset)	**$ 465.2**	$ 298.9
Net working capital and long-term assets	**$ 5,854.6**	$ 5,086.9
Term debt (long-term portion)	**$ 213.6**	$ 245.5
Retirement benefit obligations	**$ 158.3**	$ 205.5
Lease obligations	**$ 79.5**	$ 49.2
Deferred reforestation obligations (long-term portion)	**$ 43.8**	$ 54.6
Other long-term liabilities	**$ 32.0**	$ 31.0
Put liability	**$ 172.7**	$ 156.2
Deferred income taxes, net	**$ 391.9**	$ 335.8
Non-controlling interests	**$ 541.3**	$ 525.1
Equity attributable to shareholders of Company	**$ 4,221.5**	$ 3,484.0
	$ 5,854.6	$ 5,086.9
Ratio of current assets to current liabilities	**3.5 : 1**	2.9 : 1
Net cash to total capitalization[32]	**(26.0)%**	(37.3)%
Cumulative duty deposits paid	**$ 887.9**	$ 682.5

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

The ratio of current assets to current liabilities at the end of 2022 was 3.5:1 compared to 2.9:1 at the end of 2021, largely reflecting the strong operating results, combined with, lower income taxes payable and accounts payable and accrued liabilities at the end of the current year.

The Company's net cash to capitalization was 26.0% at December 31, 2022 (December 31, 2021 – 37.3%) and principally reflected increased capital spending combined with lower operating earnings compared to the prior period.

In 2022, the Company continued to pay cash deposits on Canadian lumber exports destined to the US as a result of the imposition of duties by the US Department of Commerce ("DOC") in the latter half 2017. As of December 31, 2022, the Company had paid cumulative duty deposits of $887.9 million (December 31, 2021 – $682.5 million) and had accrued interest on duty deposits recoverable of $40.8 million (December 31, 2021 – $24.8 million). Further discussion is provided in the "Countervailing and Anti-Dumping Duties" section of this document.

CHANGES IN FINANCIAL POSITION

At the end of 2022, Canfor had $1,268.7 million of cash and cash equivalents.

(millions of Canadian dollars)		2022		2021
Increase (decrease) in cash and cash equivalents[33]	**$**	**(113.0)**	$	942.4
Operating activities	**$**	**1,113.0**	$	1,914.9
Financing activities	**$**	**(179.4)**	$	(504.1)
Investing activities	**$**	**(1,046.6)**	$	(468.4)

[33] Increase (decrease) in cash and cash equivalents shown before foreign exchange translation on cash and cash equivalents.

The changes in the components of cash flows during 2022 are discussed in the following sections.

Operating Activities

For the 2022 year, Canfor generated cash from operations of $1,113.0 million, down $801.9 million from the cash generated of $1,914.9 million in the previous year. The decrease in operating cash flows was largely a result of reduced cash earnings in 2022, combined with higher income tax payments in the current year, offset in part by favourable movements in non-cash working capital. The latter primarily reflected a lower accounts receivable balance at the end of the current year tied to lower global lumber benchmark pricing, offset in part by a timing-related decrease in accounts payable and accrued liabilities. Cash duty deposits paid in 2022 were $205.4 million compared to $88.5 million in the prior year.

Financing Activities

Financing activities in 2022 used cash of $179.4 million compared to $504.1 million in 2021. Financing activities in 2022 primarily consisted of share purchases and distributions to non-controlling interests, and to a lesser extent, interest and lease payments. Financing activities in 2021 were largely comprised of term debt repayments of $422.8 million, as well as interest, lease obligations, share purchases and distributions to non-controlling interests.

Investing Activities

In 2022, the Company used net cash for investing activities of $1,046.6 million, compared to $468.4 million in 2021. The significant increase in 2022 was principally associated with increased capital expenditures year-over-year, combined with the Company's investment in Millar Western in March 2022.

Additions to property, plant and equipment (before acquisitions) totaled $625.3 million in 2022, up $197.1 million from 2021, as sustained cash earnings provided for more strategic capital investments in the current period. In the lumber segment, capital expenditures (before acquisitions) of $507.7 million included spend on the Company's greenfield sawmill in DeRidder, Louisiana, the commencement of spend on the upgrade and expansion of the Company's Urbana sawmill, smaller-scale discretionary capital projects in Western Canada and Europe as well as maintenance-of-business capital expenditures. In the pulp and paper segment, capital spending of $112.6 million in 2022 was principally comprised of Northwood's RB1 lower furnace capital upgrade early in the year combined with capital spending on maintenance-of-business projects.

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loans

Operating Loans - Consolidated

At December 31, 2022, on a consolidated basis, including CPPI and Vida, the Company had cash and cash equivalents of $1,268.7 million, with $27.8 million drawn on its operating loans and facilities, and an additional $81.9 million reserved for several standby letters of credit. At the end of the year, the Company had available, undrawn operating loan facilities of $1,158.7 million, including an undrawn committed revolving credit facility.

Operating Loans – Canfor, excluding Vida and CPPI

On October 31, 2022, Canfor, excluding Vida and CPPI, extended the maturity date of its $775.0 million committed operating loan facility from October 27, 2026 to October 31, 2027.

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.

As at December 31, 2022, Canfor, excluding Vida and CPPI, had available operating loan facilities totaling $1,048.2 million, with $69.0 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans, leaving $979.2 million available and undrawn on its operating loan facilities at the end of the year.

Operating Loans – Vida

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 2.8% to 5.9%. Vida also has separate overdraft facilities with fixed interest rates ranging from 3.9% to 5.9%. Vida's operating loan facilities have certain financial covenants including minimum equity and interest coverage ratios.

At December 31, 2022, Vida had $12.8 million drawn on its $110.2 million operating loan facilities, leaving $97.4 million available and undrawn at the end of the year.

Operating Loans – CPPI

On November 1, 2022, CPPI extended the maturity date of its committed operating loan facility from December 15, 2025 to November 1, 2026.

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.

At December 31, 2022, CPPI had $15.0 million drawn on its $110.0 million operating loan facility, with $12.9 million reserved for several standby letters of credit under the operating loan facility, leaving $82.1 million available and undrawn at the end of the year.

Term Debt

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

On November 1, 2022, CPPI extended the maturity date of its $50.0 million non-revolving term debt from December 15, 2024 to November 1, 2025.

Net Cash and Liquidity

As at December 31, 2022, on a consolidated basis, including CPPI and Vida, the Company had total net cash of $982.0 million, a $108.1 million decline from net cash of $1,090.1 million at the end of the previous year. Available liquidity of $2,427.4 million decreased by $74.7 million during 2022.

Debt Covenants

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

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

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

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

Management reviews results and forecasts in monitoring the Company's compliance with these covenant requirements. Canfor, Vida and CPPI were fully in compliance with all debt covenants for the year ended December 31, 2022 and expects to remain so for the foreseeable future.

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

Normal Course Issuer Bid

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

In 2022, 3,434,021 common shares were purchased under this normal course issuer bid for $81.4 million (an average price of $23.70 per common share), of which $78.9 million was paid during the year.

Shares Outstanding

As at December 31, 2022 and February 28, 2023 there were 121,059,579 common shares of the Company outstanding, and Canfor's ownership interest in CPPI and Vida was 54.8% and 70.0%, respectively (December 31, 2021 – 54.8% and 70.0%).

Countervailing and Anti-Dumping Duties

In 2016, a petition was filed by the US Lumber Coalition to the US 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. As at December 31, 2022, Canfor has paid cumulative cash deposits of $887.9 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.

Third Period of Review (POR3)

In January 2022, the DOC announced the preliminary results for POR3, which is based on sales and cost data in 2020, and in July 2022, finalized the rates. The Company's final CVD rate was determined to be 0.95% (versus a cash deposit rate of 13.24% from January to November 2020 and 2.63% for December 2020), while the final ADD rate was 4.92% (versus a cash deposit rate of 7.28% from January to November 2020 and 1.99% for December 2020, and estimated accrual rate of 5.00%).

Upon finalization of these POR3 rates, a net recovery of $97.6 million (US$73.0 million) was recognized in the Company's consolidated statement of income during the third quarter of 2022, with a corresponding net receivable included on the Company's consolidated balance sheet as at December 31, 2022, reflecting the difference between the combined accrual rates (18.24% from January to November 2020 and 7.63% for December 2020) and the DOC's final combined rate established for POR3 (5.87%).

The Company's combined cash deposit rate of 19.54% was reset in August 2022 to the final rate of 5.87% as determined in POR3. This cash deposit rate will apply to the Company's Canadian lumber shipments destined to the United States until completion of the administrative review for the fourth period of review ("POR4") (final rates anticipated in 2023). Despite the reduced rates for POR3, no cash duties will be refunded to the Company until such time as the litigation regarding the imposition of CVD and ADD has been settled.

Fourth Period of Review (POR4)

Subsequent to year-end, in January 2023, the DOC announced the preliminary results for POR4, which indicated that the Company's preliminary CVD and ADD rate for 2021 was 2.04% and 5.25%, respectively. Upon finalization of these rates (anticipated in the third quarter of 2023), a recovery, estimated at $10.9 million (US$8.8 million), will be recognized in the Company's consolidated financial statements to reflect the difference between the combined accrual rate of 9.63% between January and November 2021 and 9.42% for December 2021, and the DOC rates for POR4. In addition, once final, the Company's current combined cash deposit rate of 5.87% will be reset to the DOC rates for POR4 (currently estimated to be 7.29% based on the preliminary determination).

Fifth Period of Review ("POR5")

On January 1, 2022, the Company moved into POR5, which is based on sales and cost data in 2022. Consistent with prior periods of review, the Company was unable to estimate an applicable CVD rate separate from the DOC's cash deposit rate. As a result, CVD was expensed at a rate of 2.42% until July 2022 and 0.95% thereafter, while ADD was expensed at an estimated rate of 9.00%. Despite cash deposits being made in 2022 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.

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 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.

Additional details on duties are provided in the "Risks and Uncertainties – Softwood Lumber Agreement" section of this document.

2023 Projected Capital Spending and Debt Repayments

Based on its current outlook, assuming no significant change in market conditions during the year, the Company anticipates it will invest between $520 million and $570 million in 2023, which will include approximately $450 million to $500 million in the lumber segment and approximately $70 million in the pulp and paper segment (including costs related to scheduled maintenance outages).

For the lumber business, projected spending is anticipated to be focused on the Company's greenfield sawmill in DeRidder, Louisiana, the upgrade and expansion of the Urbana sawmill in Union County, Arkansas, and the construction of a new state-of-the-art sawmill in southern Alabama, "Axis", which will replace the Company's existing Mobile sawmill. In addition to these projects, spending in 2023 is also anticipated to reflect capital investments aimed at increasing drying and sorting capacity at the Company's European sawmills at Borgstena, Alvesta and Vislanda as well as various high-returning discretionary projects, primarily concentrated in the US South and Europe.

For CPPI, it is anticipated that capital projects in 2023 will be primarily focused on optimizing the sustainable operating footprint and reliability of its operations.

Details of the Company's additional commitments and term debt obligations in 2023 are outlined in the "Other Commitments" section of this document. Canfor (including CPPI and Vida) has sufficient liquidity in its cash reserves and operating loans to finance its planned investments and support its lumber and pulp operations during 2023.

Derivative Financial Instruments

As at December 31, 2022, the Company had the following significant derivative financial instruments outstanding:

	As at December 31, 2022	
Maturity Date	**Notional Amount**	**Average Rate**
Lumber Futures Contracts	(MMfbm)	(US-dollars per Mfbm)
Future sales contracts		
0-6 months	**5.2**	**$ 425.4**

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

		As at December 31, 2022	
Maturity Date	**Notional Amount Currency**	**Notional Amount**	**Exchange Rates**
Forward Foreign Exchange Contracts		(millions)	(rate of SEK to notional currency)
0-6 months	GBP	**£48.0**	**12.41**
0-12 months	USD	**$108.0**	**10.57**
0-6 months	EUR	**€15.0**	**10.83**

Other Commitments

The following table summarizes Canfor's term debt obligations excluding interest at December 31, 2022 for each of the next five years and thereafter:

(millions of Canadian dollars)	**2023**	**2024**	**2025**	**2026**	**2027**	**Thereafter**	**Total**
Term debt obligations	$ 45.3	$ 45.2	$ 95.2	$ -	$ 0.1	$ 73.1	$ 258.9

Interest payments include interest of 4.4% on the Company's US$100.0 million fixed-rate term loan. Interest is also payable on floating rate debt. Interest payments have been excluded from the above commitments.

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

- Contractual commitments totaling $215.7 million relating to the construction of capital assets, including those related to the DeRidder greenfield sawmill, the upgrade and expansion of the Urbana sawmill and the construction of the new Axis sawmill. Commitments related to leases of property, plant and equipment are detailed in Note 6 of Canfor's 2022 consolidated financial statements.
- Deferred reforestation, for which a liability of $104.2 million has been recorded at December 31, 2022. The reforestation liability is a fluctuating obligation, based on the area harvested. The future cash outflows are a function of the actual costs of silviculture programs and of harvesting and are based on, among other things, the location of the harvesting and the activities necessary to adequately stock harvested areas and achieve a "free-to-grow" state.
- Obligations to pay pension and other post-employment benefits, for which the net liability for accounting purposes at December 31, 2022 was $148.7 million. As at December 31, 2022, Canfor estimates that total contribution payments of $8.6 million will be made to its defined benefit pension plans in 2023.
- CPPI has energy purchase agreements with a BC energy company (the "Energy Agreements") for all three of the Company's kraft pulp mills. Two of these agreements are for the sale of incremental electrical energy and the third agreement is for load displacement. One of these Energy Agreements includes incentive funding from a BC energy company to support capital investments for a turbo generator. All agreements include performance guarantees to ensure minimum contractual amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, the Company has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2022 the Company had posted $2.2 million of standby letters of credit under these agreements and had no repayment obligations under the terms of any of these agreements.
- Purchase obligations and contractual obligations in the normal course of business. Purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on Canfor's requirements in any given year.

TRANSACTIONS WITH RELATED PARTIES

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

The Jim Pattison Group is Canfor's largest shareholder with an ownership interest of 52.6% at December 31, 2022. During 2022, subsidiaries owned by The Jim Pattison Group provided lease, insurance and other services to Canfor totaling $4.9 million.

During 2022, CPPI sold paper to subsidiaries owned by the Jim Pattison Group totaling $2.5 million. CPPI also made purchases from subsidiaries owned by the Jim Pattison group totaling $0.5 million. Additional details on related party transactions are contained in Note 22 to Canfor's 2022 consolidated financial statements.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Sales and income (loss) (millions of Canadian dollars)								
Sales	**$ 1,373.3**	**$ 1,666.4**	**$ 2,173.1**	**$ 2,213.9**	$ 1,571.3	$ 1,676.6	$ 2,495.2	$ 1,941.8
Operating income (loss) before amortization, asset write-downs and impairments[34]	**$ (62.6)**	$ **211.5**	**$ 630.3**	**$ 830.7**	$ 321.7	$ 425.4	$ 1,041.3	$ 600.4
Operating income (loss)	**$ (308.0)**	**$ 108.6**	**$ 531.6**	**$ 741.9**	$ (66.8)	$ 331.0	$ 1,041.3	$ 602.6
Net income (loss)	**$ (231.4)**	**$ 106.5**	**$ 415.5**	**$ 570.5**	$ (35.5)	$ 256.8	$ 784.6	$ 452.9
Shareholder net income (loss)	**$ (207.9)**	**$ 87.4**	**$ 373.8**	**$ 534.0**	$ (23.1)	$ 210.0	$ 726.9	$ 427.8
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ (1.70)**	**$ 0.71**	**$ 3.02**	**$ 4.29**	$ (0.19)	$ 1.68	$ 5.81	$ 3.42
Book value[35]	**$ 34.87**	**$ 36.14**	**$ 34.77**	**$ 31.96**	$ 27.99	$ 28.23	$ 26.26	$ 20.64
Statistics								
Lumber shipments (MMfbm)[36]	**1,239**	**1,311**	**1,528**	**1,407**	1,320	1,316	1,540	1,449
Pulp shipments (000 mt)	**170**	**199**	**205**	**176**	216	241	285	265
Average exchange rate – US$/Cdn$	**$ 0.736**	**$ 0.766**	**$ 0.783**	**$ 0.790**	$ 0.794	$ 0.794	$ 0.814	$ 0.790
Average exchange rate – SEK/Cdn$	**7.891**	**8.082**	**7.708**	**7.367**	7.026	6.865	6.851	6.628
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 410**	**$ 580**	**$ 866**	**$ 1,274**	$ 711	$ 494	$ 1,342	$ 972
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 451**	**$ 722**	**$ 769**	**$ 1,372**	$ 862	$ 533	$ 1,163	$ 1,160
Average SYP (East) 2x6 #2 lumber price (US$)	**$ 449**	**$ 459**	**$ 556**	**$ 1,102**	$ 538	$ 407	$ 946	$ 904
Average NBSK pulp list price delivered to China (US$)	**$ 920**	**$ 969**	**$ 1,008**	**$ 899**	$ 723	$ 832	$ 962	$ 883

[34] Amortization includes amortization of certain capitalized major maintenance costs; includes asset write-down and impairment charges of $138.6 million in 2022 (2021 – $293.5 million).
[35] Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.
[36] Includes Canfor produced lumber, as well as lumber purchased for resale, remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

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

(millions of Canadian dollars)	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Operating income (loss) by segment:								
Lumber	**$ (199.5)**	**$ 101.6**	**$ 552.1**	**$ 783.0**	$ 86.3	$ 326.1	$ 1,000.5	$ 606.7
Pulp and Paper	**$ (91.1)**	**$ 19.2**	**$ (8.1)**	**$ (26.0)**	$ (137.2)	$ 15.8	$ 51.0	$ 4.9
Unallocated and Other	**$ (17.4)**	**$ (12.2)**	**$ (12.4)**	**$ (15.1)**	$ (15.9)	$ (10.9)	$ (10.2)	$ (9.0)
Total operating income (loss)	**$ (308.0)**	**$ 108.6**	**$ 531.6**	**$ 741.9**	$ (66.8)	$ 331.0	$ 1,041.3	$ 602.6
Add: Amortization[37]	**$ 106.8**	**$ 102.9**	**$ 98.7**	**$ 88.8**	$ 95.0	$ 94.4	$ 93.3	$ 94.1
Add: Asset write-downs and impairments	**$ 138.6**	**$ -**	**$ -**	**$ -**	$ 293.5	$ -	$ -	$ -
Total operating income (loss) before amortization, asset write-downs and impairments	**$ (62.6)**	**$ 211.5**	**$ 630.3**	**$ 830.7**	$ 321.7	$ 425.4	$ 1,134.6	$ 696.7
Add (deduct):								
Working capital movements	**$ (13.8)**	**$ 185.6**	**$ 210.5**	**$ (287.7)**	$ (147.9)	$ 30.8	$ 88.5	$ (354.7)
Defined benefit plan contributions, net	**$ (2.4)**	**$ (3.0)**	**$ (3.0)**	**$ (3.8)**	$ (2.3)	$ (3.3)	$ (3.9)	$ (4.1)
Income taxes paid, net	**$ (42.7)**	**$ (98.9)**	**$ (113.0)**	**$ (208.0)**	$ (48.1)	$ (43.7)	$ (121.7)	$ (60.1)
Adjustment to accrued duties[38]	**$ 45.3**	**$ (105.6)**	**$ (45.3)**	**$ (50.7)**	$ (27.5)	$ 27.0	$ 2.0	$ 10.4
Other operating cash flows, net[39]	**$ 23.4**	**$ (5.2)**	**$ (2.1)**	**$ 23.5**	$ (0.1)	$ (15.8)	$ (11.2)	$ 22.2
Cash from (used in) operating activities	**$ (52.8)**	**$ 184.4**	**$ 677.4**	**$ 304.0**	$ 95.8	$ 420.4	$ 1,088.3	$ 310.4
Add (deduct):								
Capital additions, net	**$ (277.8)**	**$ (138.8)**	**$ (113.1)**	**$ (81.3)**	$ (175.3)	$ (128.5)	$ (58.6)	$ (65.8)
Finance expenses paid	**$ (6.9)**	**$ (4.4)**	**$ (6.4)**	**$ (3.4)**	$ (7.7)	$ (3.5)	$ (7.1)	$ (6.8)
Repayments of term debt, net	**$ (0.1)**	**$ (0.1)**	**$ (0.1)**	**$ (0.1)**	$ (7.9)	$ (0.3)	$ (185.5)	$ (229.1)
Share purchases	**$ (30.3)**	**$ (2.4)**	**$ (40.5)**	**$ (5.7)**	$ (0.3)	$ (10.9)	$ (8.0)	$ -
Acquisition of Millar Western	**$ -**	**$ -**	**$ (15.9)**	**$ (418.1)**	$ -	$ -	$ -	$ -
Phased acquisition of Elliott	**$ -**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -	$ (38.2)
Other, net[39]	**$ 39.4**	**$ 13.8**	**$ (70.3)**	**$ (45.7)**	$ (13.2)	$ 2.0	$ (20.2)	$ (20.8)
Change in cash / operating loans	**$ (328.5)**	**$ 52.5**	**$ 431.1**	**$ (250.3)**	$ (108.6)	$ 279.2	$ 808.9	$ (50.3)

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

THREE-YEAR COMPARATIVE REVIEW

(millions of Canadian dollars, except per share amounts)	2022	2021	2020
Sales	**$ 7,426.7**	$ 7,684.9	$ 5,454.4
Net income	**$ 861.1**	$ 1,458.8	$ 559.9
Shareholder net income	**$ 787.3**	$ 1,341.6	$ 544.4
Total assets	**$ 6,739.2**	$ 6,173.9	$ 5,108.8
Term debt	**$ 258.9**	$ 246.0	$ 676.8
Shareholder net income per share, basic and diluted	**$ 6.39**	$ 10.74	$ 4.35

FOURTH QUARTER RESULTS

Overview

For the fourth quarter of 2022, the Company reported an operating loss of $308.0 million. After taking account of adjusting items, largely comprised of asset write-downs and impairments, the Company's operating loss for the fourth quarter of 2022 was $163.8 million compared to an adjusted operating income of $197.1 million for the previous quarter, largely reflecting a material decline in both the lumber and pulp and paper segment results.

An overview of the results by business segment for the fourth quarter of 2022 compared to the third quarter of 2022 and the fourth quarter of 2021 follows.

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars, unless otherwise noted)		Q4 2022		Q3 2022		Q4 2021
Sales[40]	**$**	**1,105.2**	$	1,358.1	$	1,322.0
Operating income (loss) before amortization, asset write-down and impairment[40]	**$**	**(30.6)**	$	176.6	$	356.8
Operating income (loss)[40]	**$**	**(199.5)**	$	101.6	$	86.3
Asset write-down and impairment	**$**	**89.0**	$	-	$	198.5
Inventory write-down	**$**	**6.1**	$	89.6	$	-
Adjusted operating income (loss)[41]	**$**	**(104.4)**	$	191.2	$	284.8
Average Western SPF 2x4 #2&Btr lumber price in US$[42]	**$**	**410**	$	580	$	711
Average Western SPF 2x4 #2&Btr lumber price in Cdn$[42,44]	**$**	**557**	$	757	$	895
Average SYP 2x4 #2 lumber price in US$[43]	**$**	**451**	$	722	$	862
Average SYP 2x4 #2 lumber price in Cdn$[43,44]	**$**	**613**	$	943	$	1,085
Average SYP 2x6 #2 lumber price in US$[43]	**$**	**449**	$	459	$	538
Average SYP 2x6 #2 lumber price in Cdn$[43,44]	**$**	**610**	$	599	$	678
US housing starts (thousand units SAAR)[45]		**1,403**		1,450		1,679
Production – Western SPF lumber (MMfbm)[46]		**507**		504		529
Production – SYP lumber (MMfbm)[46]		**388**		401		379
Production – European lumber (MMfbm)[46]		**349**		272		383
Shipments – Western SPF lumber (MMfbm)[47]		**464**		595		517
Shipments – SYP lumber (MMfbm)[47]		**371**		417		377
Shipments – European lumber (MMfbm)[47]		**404**		299		426

[40] Q4 2022 includes sales of $307.5 million, operating income of $26.9 million and operating income before amortization of $43.3 million from European operations (Q3 2022 – sales of $340.0 million, operating income of $41.6 million and operating income before amortization of $57.4 million; Q4 2021 – sales of $434.7 million, operating income of $137.1 million and operating income before amortization of $155.3 million). Operating income from European operations in Q4 2022 includes $9.2 million in incremental amortization and other expenses driven by the purchase price allocation at acquisition (Q3 2022 - $8.9 million; Q4 2021 - $10.2 million).
[41] Adjusted operating income is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.
[42] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[43] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[44] Average lumber prices in Cdn$ calculated as average price in US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average for the period.
[45] Source – US Census Bureau, SAAR.
[46] Excluding production of trim blocks.
[47] Includes Canfor produced lumber, as well as lumber purchased for resale, remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

Markets

North American lumber market conditions remained under pressure through the fourth quarter of 2022, with supply continuing to exceed demand. Persistent inflationary pressures alongside rising interest rates continued to reduce housing affordability in the current period, which lowered residential construction activity. As a result, US housing starts averaged 1,403,000 units on a seasonally adjusted basis for the current quarter, down 3% from the previous quarter, primarily reflecting a 5% decline in single-family starts, as multi-family housing starts were largely unchanged quarter-over-quarter. Activity in the repair and remodeling sector also trended downwards in the current quarter principally driven by seasonal impacts, coupled with declining existing home sales. In Canada, housing starts averaged 259,000 units on a seasonally adjusted basis in the current period, down 8% from the third quarter of 2022, primarily reflecting reduced construction of single-family dwellings, particularly in Ontario and Quebec.

Offshore lumber demand and prices in Asia continued to be negatively impacted by elevated global inventory and reduced consumption in the fourth quarter of 2022, particularly in China as a result of COVID-19 related lockdowns in that region through much of the current period. In Western Europe and Scandinavia, lumber demand and pricing declined significantly due to an unseasonably high inventory build and weakness in both the home building and do-it-yourself sectors tied to high inflation and energy costs which lowered consumer spending.

Sales

Sales for the lumber segment for the fourth quarter of 2022 were $1,105.2 million, compared to $1,358.1 million for the previous quarter and $1,322.0 million for the fourth quarter of 2021. The 19% decrease in sales revenue over the prior quarter principally reflected a material decline in global lumber market prices, and to a lesser extent, a 17% decrease in North American shipment volumes. These factors significantly outweighed the benefit of a 35% increase in European shipments, a 3 cent, or 4%, weaker Canadian dollar (versus the US-dollar), and a 2% weaker Canadian dollar (versus the SEK) in the current quarter. Similarly, total lumber segment sales revenues were down 16% from the fourth quarter of 2021 primarily as a result of the substantial drop in global lumber market prices in the current period combined with a 12% stronger Canadian dollar (versus the SEK), and 6% lower shipment volumes, offset in part by a 6 cent, or 7%, weaker Canadian dollar (versus US-dollar) in the current period.

Total lumber shipments of 1.24 billion board feet were 5% lower than the previous quarter principally reflecting a build of finished inventory in North America towards the end of the current quarter, correlated to a slowdown in lumber market activity, combined with 3% lower production in the US South. These drivers were offset in part by significantly higher European lumber shipments in the current quarter following the traditional production downtime taken in the prior period.

Total lumber shipments were 6% lower than the fourth quarter of 2021, largely driven by the combined impact of market-driven temporary downtime in Western Canada and finished inventory build in the current period, despite the benefit of incremental shipment volumes attributable to the acquisition of Millar Western’s solid wood operations earlier in 2022. Shipment volumes in the US and Europe were slightly lower quarter-over-quarter, with the latter primarily reflecting reduced production.

The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price opened the period at US$475 per Mfbm and fell steadily through the quarter, ending the year at US$345 per Mfbm. For the quarter overall, the Western SPF 2x4 #2&Btr price averaged US$410 per Mfbm, down US$170 per Mfbm, or 29%, from the previous quarter. The Company’s Western SPF lumber unit sales realizations reflected this significant decline in benchmark pricing, as well as lower offshore unit sales realizations (most notably Japan). These drivers were moderated, in part, by a favourable timing lag in shipments (versus orders), and the 4% weaker Canadian dollar (versus the US-dollar).

The movement in the North American Random Lengths SYP East 2x4 #2 price through the fourth quarter of 2022 followed a similar trend to that of Western SPF, beginning the quarter at US$535 per Mfbm and ending the year at US$395 per Mfbm. For the quarter overall, the SYP East 2x4 #2 price averaged US$451 per Mfbm, down US$271 per Mfbm, or 38%, from the previous quarter. However, significantly less pronounced pricing decreases for most wider-width dimension products, including SYP East 2x6 #2 which averaged US$449 per Mfbm in the current period, down US$10 per Mfbm, or 2%, tempered the decline in the Company’s average SYP unit sales realizations quarter-over-quarter.

The Company’s European lumber unit sales realizations for the fourth quarter of 2022 were moderately lower than the previous quarter principally reflecting ongoing downward pressure on European market pricing, offset to a degree by the 2% weaker Canadian dollar (versus the SEK).

Compared to the fourth quarter of 2021, the Company’s lumber unit sales realizations were down significantly in Western Canada and Europe, and moderately in the US South. In Western Canada, the decrease in lumber unit sales realizations largely reflected a US$301 per Mfbm, or 42%, drop in the average North American Random Lengths Western SPF 2x4 #2&Btr price and lower offshore unit sales realizations in the current period, which more than outweighed the benefit of the 7% weaker Canadian dollar (versus US-dollar). The decline in the Company’s European lumber unit sales realizations in the current period principally reflected lower European market demand and pricing, combined with the 12% stronger Canadian dollar (versus the SEK). In the US South, the decrease in lumber unit sales realizations was largely due to a US$411 per Mfbm, or 48%, decline in the average SYP 2x4 #2 price, combined with a US$89 per Mfbm, or 17%, decrease in the SYP 2x6 #2 price, offset in part by less pronounced pricing declines for certain wider-width dimension products.

Other revenues for the Company's lumber segment (which are primarily comprised of residual fibre, pulp log and pellets sales, as well as the Company's European operations' other related revenues) increased moderately compared to the previous quarter primarily due to the impact of the seasonal production downtime taken at the Company's European operations in the prior quarter, combined with increased log sales at the Company's Western Canadian operations in the current period. Compared to the fourth quarter of 2021, an increase in other revenues largely reflected higher log sales at the Company's Western Canada operations combined with a quarter-over quarter uptick in engineered wood sales from the Company's US South operations in the current period.

<u>Operations</u>

Total lumber production, at 1.24 million board feet, was 6% higher than the prior quarter, as the benefit of increased operating days at the Company's European operations following the aforementioned seasonal downtime was offset in part by a modest decline in SYP lumber production stemming from winter weather-related operational challenges. Western SPF production was broadly in line with the prior quarter largely due to the reduced operating schedules and market-driven curtailments in both periods. The challenging market conditions associated with declining lumber prices that commenced in the third quarter, continued through the current period, and as a result, most of the Company's Western Canadian operations underwent a two-week curtailment late September, followed by reduced operating schedules through the balance of 2022. Together, these capacity reductions lowered Western SPF production by approximately 250 million board feet in the fourth quarter of 2022.

Compared to the fourth quarter of 2021, lumber production was down 4%, primarily driven by reduced production in Western Canada due to a more significant impact of temporary downtime in the current quarter, and to a lesser extent, lower European lumber production tied to a market-related reduction in certain operating shifts in the current quarter. Production in the US South was broadly comparable quarter-over-quarter.

Lumber unit manufacturing and product costs were broadly in line with the previous quarter, as modest decreases in both log and per-unit conversion costs in Western Canada and Europe were offset by a per-unit increase in the US South primarily tied to the 4% weaker Canadian dollar (versus the US-dollar). Lower log costs in Western Canada principally reflected reduced market-based stumpage costs in the current quarter following the historical highs in the prior period. A decrease in log costs in Europe was largely correlated to the market-driven declines in European lumber prices. Moderated per-unit conversion costs in Western Canada principally reflected reduced spend on maintenance-related activities during the aforementioned downtime, while in Europe, lower per-unit conversion costs were tied to the benefit of increased production in the current quarter.

Compared to the fourth quarter of 2021, lumber unit manufacturing and product costs were modestly higher, primarily reflecting the impact of lower production volumes and inflationary pressures on unit cash conversion costs in the current period. An uplift in log costs in the US South, tied to increased log demand in that region, was offset by lower log costs in Western Canada and Europe largely driven by reduced market-based pricing.

<u>Asset Write-Downs and Impairments</u>

An asset write-down and impairment charge totaling $89.0 million was recorded in the fourth quarter of 2022 on the timber licenses and property, plant and equipment for the Company's Western Canadian lumber operations (results in the fourth quarter of 2021 included an impairment expense of $198.5 million). See "Critical Accounting Estimates – Asset Write-Downs and Impairments" for further details.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[48]

Summarized results for the Pulp and Paper segment for the fourth quarter of 2022, third quarter of 2022 and fourth quarter of 2021 were as follows:

(millions of Canadian dollars, unless otherwise noted)		**Q4 2022**		Q3 2022		Q4 2021
Sales	**$**	**268.1**	$	308.3	$	249.3
Operating income (loss) before amortization, asset write-down and impairment[49]	**$**	**(15.1)**	$	46.7	$	(19.6)
Operating income (loss)	**$**	**(91.1)**	$	19.2	$	(137.2)
Asset write-down and impairment	**$**	**49.6**	$	-	$	95.0
Inventory write-down (recovery)	**$**	**(0.5)**	$	(1.1)	$	1.1
Adjusted operating income (loss)[50]	**$**	**(42.0)**	$	18.1	$	(41.1)
Average NBSK pulp price delivered to China – US$[51]	**$**	**920**	$	969	$	723
Average NBSK pulp price delivered to China – Cdn$[51]	**$**	**1,250**	$	1,265	$	911
Production – pulp (000 mt)		**160**		195		190
Production – paper (000 mt)		**32**		33		31
Shipments – pulp (000 mt)		**170**		199		216
Shipments – paper (000 mt)		**32**		32		27

48 Includes 100% of CPPI, which is consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both NBSK pulp and BCTMP.

49 Amortization includes amortization of certain capitalized major maintenance costs.

50 Adjusted operating income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details.

51 Per tonne, NBSK pulp list net price delivered to China (as published by RISI); Average NBSK pulp list net price delivered to China in Cdn$ calculated as average NBSK pulp list net price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.

Markets

Following the strong global pulp market conditions experienced mid-year, market fundamentals came under modest pressure in the current quarter, as a decline in demand and purchasing activity, particularly from Asian markets, as well as an uptick in global pulp market supply, primarily from Europe and South America.

Average US-dollar NBSK pulp list prices to China were US$920 per tonne during the current quarter, down US$49 per tonne, or 5%, from the previous quarter but up US$197 per tonne, or 27%, compared to fourth quarter of 2021. Prices to other global regions experienced more modest declines in the current period, with the average US-dollar NBSK pulp list price to North America at US$1,745 per tonne (before discounts), down US$55 per tonne, or 3%, from the prior quarter and up US$273 per tonne, or 19% compared to the same period in the prior year.

Global softwood pulp producer inventories at the end of December 2022 remained on the high end of the balanced range at 43 days of supply, a one day increase from September 2022. Market conditions are generally considered balanced when inventories are in the 32-43 days of supply range.

Global kraft paper markets remained steady through the fourth quarter of 2022, as solid demand and lean inventories in the North American market was offset by modest declines in offshore markets.

Sales

Pulp shipments for the fourth quarter of 2022 totaled 170,000 tonnes, down 29,000 tonnes, or 15%, from the previous quarter, principally due to an 18% reduction in pulp production, offset in part by a drawdown of inventory in the current quarter during the Intercon fibre-related curtailment at the end of the year. Compared to the fourth quarter of 2021, pulp shipments were down 46,000 tonnes, or 21%, primarily reflecting the 16% reduction in pulp production in the current period, and, to a lesser extent, the timing of vessels versus the prior quarter.

Average NBSK pulp unit sales realizations were broadly in line with the prior quarter, as a 5% decrease in US-dollar NBSK pulp list prices to China was offset by the 4% weaker Canadian dollar. Compared to the fourth quarter of 2021, CPPI's average NBSK pulp unit sales realizations saw a substantial increase, as a notable uptick in global US-dollar pulp list pricing quarter-over-quarter was combined with the 7% weaker Canadian dollar.

Energy revenues decreased significantly compared to both comparative periods, principally driven by the quarter-over-quarter decline in pulp production and the correlated impact on energy generation.

Paper shipments in the fourth quarter of 2022 were 32,000 tonnes, broadly in line with the previous quarter, and up 5,000 tonnes from the fourth quarter of 2021, principally reflecting the timing of shipments quarter-over-quarter.

Paper unit sales realizations in the fourth quarter of 2022 were modestly higher than the previous quarter, as a slight decline in global US-dollar paper pricing in the current period was more than offset by the weaker Canadian dollar. Compared to the fourth quarter of 2021, paper unit sales realizations experienced a substantial increase, primarily reflecting a notable improvement in US-dollar prices, especially to North American markets, quarter-over-quarter, combined with the weaker Canadian dollar.

Operations

Pulp production was 160,000 tonnes for the fourth quarter of 2022, down 35,000 tonnes, or 18%, from the third quarter of 2022, largely reflecting the quarter-over-quarter impact of downtime.

The current quarter was a challenging period for CPPI's pulp mills, as a shortage of economic fibre, combined with winter conditions in BC, significantly impacted operating performance and consequently pulp production, particularly at Intercon and Northwood. Pulp production in the current period also reflected the completion in mid-October of a scheduled maintenance outage at Intercon, as well as ongoing downtime at Taylor, which commenced in the first quarter of 2022 and continued through the balance of the year. Combined, these factors reduced current quarter NBSK pulp production by approximately 90,000 tonnes and BCTMP production by 60,000 tonnes. As a result of a reduction in the long-term supply of fibre in the Peace region, CPPI does not see a path forward to restarting the Taylor mill at this time and is exploring alternative uses for the site.

In the third quarter of 2022, following the completion of capital-related downtime in the first half of 2022, NBSK pulp productivity steadily improved. However, NBSK pulp production was limited to available transportation, and reduced by the completion of Northwood's scheduled maintenance outage (approximately 16,000 tonnes) as well as the commencement of Intercon's planned maintenance downtime (approximately 6,000 tonnes). Concurrently, downtime at Taylor reduced production by approximately 60,000 tonnes.

Compared to the fourth quarter of 2021, pulp production was down 30,000 tonnes, or 16%, reflecting an increase in downtime in the current quarter. In the comparative 2021 period, unprecedented flooding resulted in material transportation-related downtime at Northwood and Taylor. Production at Northwood was also impacted by the extended outage on one production line from December to enable the replacement of the lower furnace of RB1. Combined, these factors reduced NBSK pulp production in the fourth quarter of 2021 by approximately 100,000 tonnes and BCTMP production by 20,000 tonnes.

Pulp unit manufacturing costs experienced a significant increase compared to the prior quarter, principally reflecting reduced production in the current period, combined with a notable uplift in energy pricing, higher maintenance spend and, to a lesser extent, an increase in fibre costs. The higher fibre costs were primarily driven by a larger proportion of higher-cost whole log chips as a result of sawmill curtailments in the current quarter. Compared to the fourth quarter of 2021, pulp unit manufacturing costs were substantially higher, mostly attributable to lower production combined with market-related increases in fibre costs as well as higher energy and chemical costs in the current quarter.

Paper production for the fourth quarter of 2022 was 32,000 tonnes, broadly in line with both comparative periods. Paper unit manufacturing costs were modestly higher than the third quarter of 2022, primarily reflecting an uplift in chemical costs and increased spend on operating supplies in the current period (timing-related). Slush pulp costs were broadly comparable quarter-over-quarter. Compared to the fourth quarter of 2021, paper unit manufacturing costs saw a substantial increase, driven by higher slush pulp costs (tied to increased Canadian dollar NBSK pulp unit sales realizations), as well as an increase in conversion costs quarter-over-quarter.

Asset Write-Down and Impairment

An asset write-down and impairment charge totaling $49.6 million was recorded in the fourth quarter of 2022 on the property, plant and equipment for the pulp and paper segment (results in the fourth quarter of 2021 included an impairment expense of $95.0 million). See "Critical Accounting Estimates – Asset Write-Downs and Impairments" for further details.

Unallocated and Other Items

(millions of Canadian dollars)	Q4 2022	Q3 2022	Q4 2021
Corporate costs	**$ (17.4)**	$ (12.2)	$ (15.9)
Finance income (expense), net	**$ 3.8**	$ 4.8	$ (4.2)
Foreign exchange gain (loss) on term debt and duty deposits recoverable, net	**$ (9.4)**	$ 9.3	$ (3.0)
Gain (loss) on derivative financial instruments	**$ 4.7**	$ (1.0)	$ (4.6)
Other income (expense), net	**$ (10.2)**	$ 16.8	$ 5.3

Corporate costs were $17.4 million for the fourth quarter of 2022, up $5.2 million from the third quarter of 2022, primarily reflecting a donation to the Company's Good Things Come From Trees Foundation in the current period.

Net finance income of $3.8 million in the fourth quarter of 2022 was down $1.0 million from the previous quarter, as an increase in interest income related to US-dollar short term investments quarter-over-quarter was more than offset by lower accrued interest income associated with recoverable duty deposits in the current period. In the third quarter of 2022, net finance income principally reflected accrued interest income on recoverable duty deposits following the finalization of CVD and ADD rates for POR3. Net finance expense of $4.2 million in the fourth quarter of 2021 primarily consisted of interest expense and, to a lesser extent, pension financing costs.

In the fourth quarter of 2022, the Company recognized a foreign exchange loss on US-dollar denominated net duty deposits recoverable due to the strengthening of the Canadian dollar at the end of the current quarter compared to the end of September 2022. This was offset in part by a gain on the Company's US-dollar term debt held by Canadian entities.

At times, the Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in lumber prices, energy costs, interest and foreign exchange rates. In the fourth quarter of 2022, the Company recognized a net gain of $4.7 million, primarily related to unrealized gains on SEK foreign exchange forward contracts, offset in part by realized mark-to-market losses on lumber futures contracts.

Other expense, net, of $10.2 million in the fourth quarter of 2022, was primarily comprised of unfavourable foreign exchange movements on US-dollar and SEK denominated working capital at the end of the current period compared to the end of the prior quarter. In the fourth quarter of 2021, other income, net, was primarily comprised of favourable foreign exchange movements on US-dollar and SEK denominated working capital.

Other Comprehensive Income (Loss)

(millions of Canadian dollars)	Q4 2022	Q3 2022	Q4 2021
Defined benefit actuarial gain (loss), net of tax	**$ (4.2)**	$ (7.3)	$ 6.7
Foreign exchange translation differences for foreign operations, net of tax	**$ 40.6**	$ 84.5	$ (26.4)
Other comprehensive income (loss), net of tax	**$ 36.4**	$ 77.2	$ (19.7)

In the fourth quarter of 2022, the Company recorded a loss of $5.8 million (before tax) in relation to changes in the valuation of the Company's defined benefit plans (comprised of defined benefit pension plans as well as other benefit plans), primarily reflecting updated membership data, partially offset by a greater than anticipated return on plan assets.

This compared to a loss of $10.0 million (before tax) recognized in the third quarter of 2022 reflecting a 0.2% decrease in the discount rate used to value the employee future benefit plans, offset in part by a higher than anticipated return on plan assets.

In the fourth quarter of 2021, the Company recorded a gain of $9.9 million (before tax) primarily reflecting a higher than anticipated return on plan assets.

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

In addition, the Company recorded an accounting gain of $40.6 million in the fourth quarter of 2022 related to foreign exchange differences for foreign operations mostly reflecting the weakening of the Canadian dollar relative to the SEK, offset in part by the strengthening of the Canadian dollar relative to the US-dollar at the end of the current quarter. This compared to a gain of $84.5 million in the previous quarter and a loss of $26.4 million in the fourth quarter of 2021.

CHANGES IN FINANCIAL POSITION

At the end of 2022, Canfor had $1,268.7 million of cash and cash equivalents.

(millions of Canadian dollars)	Q4 2022	Q3 2022	Q4 2021
Increase (decrease) in cash and cash equivalents[52]	**$ (358.5)**	$ 33.8	$ (95.0)
Operating activities	**$ (52.8)**	$ 184.4	$ 95.8
Financing activities	**$ (50.7)**	$ 0.8	$ (23.6)
Investing activities	**$ (255.0)**	$ (151.4)	$ (167.2)

[52] Increase (decrease) in cash and cash equivalents shown before foreign exchange translation on cash and cash equivalents.

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

Operating Activities

Cash used from operating activities was $52.8 million in the fourth quarter of 2022, compared to cash generated of $184.4 million in the previous quarter and cash generated of $95.8 million in the fourth quarter of 2021. The decrease in operating cash flows from the previous quarter primarily reflected lower cash earnings and unfavourable movements in non-cash working capital. The latter primarily reflected a timing-related decrease in accounts payable and accrued liabilities combined with an increase in finished lumber and log inventories at the end of the current period. Compared to the fourth quarter of 2021, operating cash flows were down $148.6 million, principally due to lower cash earnings in the current quarter, offset in part by favourable non-cash working capital movements quarter-over-quarter.

Financing Activities

Cash used in financing activities was $50.7 million in the current quarter, compared to cash generated of $0.8 million in the previous quarter and cash used of $23.6 million in the fourth quarter of 2021. Financing activities in the current quarter were principally comprised of $30.3 million of share purchases, as well as lease and interest payments. In the previous quarter, cash generated from financing activities primarily reflected a $15.0 million draw-down of CPPI's principal operating loan facility offset, to a degree, by lease and interest payments. Cash used for financing activities in the fourth quarter of 2021 largely consisted of interest, lease and debt payments.

Investing Activities

Cash used for investing activities was $255.0 million in the current quarter, compared to $151.4 million in the previous quarter and $167.2 million in the same quarter of 2021. Investing activities in these periods were principally comprised of capital additions.

Capital additions in the fourth quarter of 2022 were $277.8 million, up $139.0 million from the previous quarter and up $102.5 million from the fourth quarter of 2021. In the lumber segment, current quarter capital expenditures primarily reflected the continued construction of the Company's greenfield sawmill in DeRidder, Louisiana, the ongoing costs related to the upgrade and expansion of the Company's Urbana sawmill, as well as maintenance-of-business capital across all lumber operating regions. In the pulp and paper segment, current quarter expenditures were principally comprised of maintenance-of-business capital.

SPECIFIC ITEMS AFFECTING COMPARABILITY

Specific Items Affecting Comparability of Shareholder Net Income (Loss)

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

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except for per share amounts)	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Shareholder net income (loss), as reported	**$ (207.9)**	**$ 87.4**	**$ 373.8**	**$ 534.0**	$ (23.1)	$ 210.0	$ 726.9	$ 427.8
Foreign exchange (gain) loss on term debt	**$ (1.7)**	**$ 10.6**	**$ 4.9**	**$ (3.0)**	$ 0.2	$ 2.6	$ (5.7)	$ (2.6)
(Gain) loss on derivative financial instruments	**$ (2.0)**	**$ 0.5**	**$ 1.0**	**$ (2.0)**	$ 3.0	$ (0.8)	$ -	$ 9.0
Asset write-downs and impairments	**$ 84.8**	**$ -**	**$ -**	**$ -**	$ 182.9	$ -	$ -	$ -
Net impact of above items	**$ 81.1**	**$ 11.1**	**$ 5.9**	**$ (5.0)**	$ 186.1	$ 1.8	$ (5.7)	$ 6.4
Adjusted shareholder net income (loss)[53]	**$ (126.8)**	**$ 98.5**	**$ 379.7**	**$ 529.0**	$ 163.0	$ 211.8	$ 721.2	$ 434.2
Shareholder net income (loss) per share (EPS), as reported	**$ (1.70)**	**$ 0.71**	**$ 3.02**	**$ 4.29**	$ (0.19)	$ 1.68	$ 5.81	$ 3.42
Net impact of above items per share	**$ 0.66**	**$ 0.09**	**$ 0.05**	**$ (0.04)**	$ 1.50	$ 0.02	$ (0.05)	$ 0.05
Adjusted net income (loss) per share[53]	**$ (1.04)**	**$ 0.80**	**$ 3.07**	**$ 4.25**	$ 1.31	$ 1.70	$ 5.76	$ 3.47

[53] Adjusted shareholder net income (loss) is a non-IFRS financial measure. Refer to the "Non-IFRS Financial Measures" section for further details. Effective Q1 2022, net income (loss) and net income (loss) per share were no longer adjusted for the after-tax impact of restructuring costs. Prior periods above have been restated to reflect this change (favourable per share impact of $0.07 in Q4 2021 and $0.09 in YTD 2021).

OUTLOOK

Lumber Markets

Looking ahead, global lumber market conditions are anticipated to remain under pressure through the first quarter of 2023. High inflation and interest rates are projected to continue to weigh on housing affordability and slow down demand for new home construction, especially in the single-family sector. On the other hand, the repair and remodeling sector is anticipated to improve as existing homeowners look to "fix-up" in lieu of "moving-up" in a high interest rate environment. In the longer term, underlying global lumber market fundamentals are projected to be solid, principally reflecting strong demographic trends, consistent demand driven by an aging housing stock and low inventories of new homes available.

The weakness in offshore lumber demand in Asia that was experienced in the fourth quarter of 2022 is forecast to continue through the first quarter of 2023. However, this softness is anticipated to be mitigated in part by the introduction of government incentive packages in key Asian markets intended to revive economies in those regions. Lower lumber demand is also anticipated in Europe, driven for the most part by reduced activity in both the residential construction and do-it-yourself sectors.

As a result of recent decisions, the Company's results in the first quarter of 2023 will reflect the impact on production and shipments of the wind down of the Company's Chetwynd sawmill and pellet plant as well as the Houston sawmill. Looking forward, the Company is focused on a smaller but stronger BC operating platform aimed at balancing mill capacity with economically sustainable fibre supply to enhance the Company's ability to compete in that region through all market cycles.

Pulp and Paper Markets

In recent weeks, global softwood kraft pulp market conditions have experienced a modest uptick as unplanned global supply outages, principally stemming from fibre-related downtime in Western Canada, has more than outweighed weak global macroeconomic conditions. Reflecting this favourable momentum, CPPI announced a US$30 per tonne increase to its NBSK pulp list price to China in February 2023 to US$970 per tonne. Looking forward, global softwood kraft pulp markets are projected to remain relatively stable through the balance of the first quarter of 2023, as persistent high global pulp inventory levels and additional hardwood pulp capacity predicted to come online in 2023, combine with steady Chinese demand. Notwithstanding the projected increased supply, global pulp pricing is anticipated to remain above historic average price levels in the short-term.

As a result of the recent decision, CPPI's results in the first quarter of 2023 will reflect the impact on production and shipments of the wind down of CPPI's pulp line at PG. Looking forward, CPPI is focused on optimizing a sustainable operating footprint, improving operational reliability and closely managing manufacturing and fibre costs.

No major maintenance outages are planned for the first and second quarters of 2023. In the third quarter of 2023, a maintenance outage is currently planned at Northwood, with a projected 25,000 tonnes of reduced NBSK pulp production.

Bleached kraft paper markets are projected to weaken somewhat through the first quarter of 2023 with a modest slowdown in demand anticipated as global kraft paper inventories return to more normalized levels. A maintenance outage is currently planned at CPPI's paper machine in the second quarter of 2023 with a projected 5,000 tonnes of reduced paper production.

NON-IFRS FINANCIAL MEASURES

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

(millions of Canadian dollars)	**Q4 2022**	Q3 2022	**YTD 2022**	Q4 2021	YTD 2021
Reported operating income (loss)	**$ (308.0)**	$ 108.6	**$ 1,074.1**	$ (66.8)	$ 1,908.1
Asset write-downs and impairments	**$ 138.6**	$ -	**$ 138.6**	$ 293.5	$ 293.5
Inventory write-down, net	**$ 5.6**	$ 88.5	**$ 93.5**	$ 1.1	$ 2.4
Adjusted operating income (loss)[54]	**$ (163.8)**	$ 197.1	**$ 1,306.2**	$ 227.8	$ 2,204.0
Amortization	**$ 106.8**	$ 102.9	**$ 397.2**	$ 95.0	$ 376.8
Adjusted operating income (loss) before amortization, asset write-downs and impairments[54]	**$ (57.0)**	$ 300.0	**$ 1,703.4**	$ 322.8	$ 2,580.8

[54] Effective Q1 2022, adjusted operating income (loss) was no longer adjusted for restructuring, mill closure and other items, net. Prior periods have been restated to reflect this change ($11.5 million net recovery in Q4 2021 and $15.3 million net recovery in YTD 2021).

(millions of Canadian dollars, except ratios)	**2022**	2021
Reported operating income (loss)	**$ 1,074.1**	$ 1,908.1
Realized loss on derivative financial instruments	**$ 0.2**	$ 13.2
Other income (expense), net	**$ 27.1**	$ 27.0
Less: non-controlling interests	**$ 112.6**	$ 180.6
Return	**$ 988.8**	$ 1,767.7
Average invested capital[55]	**$ 3,801.3**	$ 3,189.2
Return on invested capital (ROIC)	**26.0%**	55.4%

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

(millions of Canadian dollars, except ratios)	**As at December 31, 2022**	As at December 31, 2021
Term debt	**$ 258.9**	$ 246.0
Operating loans	**$ 27.8**	$ 18.7
Less: Cash and cash equivalents	**$ 1,268.7**	$ 1,354.8
Net cash	**$ (982.0)**	$ (1,090.1)
Total equity	**$ 4,762.8**	$ 4,009.1
Total capitalization	**$ 3,780.8**	$ 2,919.0
Net cash to total capitalization	**(26.0)%**	(37.3)%

CRITICAL ACCOUNTING ESTIMATES

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

Employee Future Benefits

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

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

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

	December 31, 2022		December 31, 2021	
	Defined Benefit Pension Plans	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Discount rate	**4.8%**	**4.8%**	3.0%	3.0%
Rate of compensation increases	**3.0%**	**n/a**	3.0%	n/a
Initial medical cost trend rate	**n/a**	**5.0%**	n/a	5.0%
Ultimate medical cost trend rate	**n/a**	**4.5%**	n/a	4.5%
Year ultimate rate is reached	**n/a**	**2025**	n/a	2025

Assumed discount rates, medical cost trend rates and mortality assumptions have a significant effect on the accrued benefit obligation and related plan assets. In addition, the average life expectancy of a 65-year-old at December 31, 2022 is between 21.3 years and 24.4 years. As at December 31, 2022, the weighted average duration of the defined benefit obligation, which reflects the average age of the plan members, is 12.7 years. The weighted average duration of the other benefit plans is 10.7 years.

For Canfor's pension benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the accrued benefit obligation by an estimated $33.2 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation by an estimated $43.0 million. These changes would only impact the Company's funding requirements in years where a new actuarial funding valuation was performed and regulatory approval for a change in funding contributions was obtained.

Annuity Contracts

On December 31, 2022, the Company entered into contracts to convert all of its existing buy-in annuities to buy-out annuities. As a result of these contracts, the Company's buy-in annuity assets and corresponding accrued benefit obligation of $308.2 million were derecognized from the Company's consolidated balance sheet as at December 31, 2022.

Deferred Reforestation

Canfor accrues an estimate of its future liability to perform forestry activities, defined to mean those silviculture treatments or activities that are carried out to ensure the establishment of a free-growing stand of young trees, including logging road rehabilitation on its forestry tenures in BC and Alberta. An estimate is recorded in the consolidated financial statements based on the number of hectares of timber harvested in the period and the estimated costs of fulfilling Canfor's obligation. Payments in relation to reforestation are expected to occur over periods of up to 15 years and have been discounted accordingly at risk-free rates ranging from 3.3% to 4.6%. The actual costs that will be incurred in the future may vary based on, among other things, the actual costs at the time of silviculture activities.

Deferred Taxes

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

Asset Retirement Obligations

Canfor records the estimated fair value of a liability for asset retirement obligations, such as landfill closures, in the period when it is incurred. For landfill closure costs, the fair value is determined using estimated closure costs discounted over the estimated useful life. Payments relating to landfill closure costs are expected to occur at periods ranging from 3 to 44 years and have been discounted at risk-free rates ranging from 3.3% to 3.8%. The actual closure costs and periods of payment may differ from the estimates used in determining the year-end liability. On initial recognition, the fair value of the liability is added to the carrying amount of the associated asset and amortized over its useful life. The liability is accreted over time through charges to earnings and reduced by actual costs of settlement.

Environmental Remediation Costs

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

Asset Write-Downs and Impairments

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

During the Company's annual impairment review, the ongoing uncertainty with regard to economically viable timber supply within British Columbia was identified as an impairment indicator. As a result, the Company performed an impairment assessment on its Western Canadian lumber operations as at December 31, 2022.

The recoverable amount of the timber licenses and property, plant and equipment, within the Western Canadian lumber operations 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 11% (15% before tax), based on the Company's weighted average cost of capital for that region in 2022.

In addition, as a result of continued fibre cost pressures and ongoing uncertainty surrounding fibre availability for CPPI's pulp mills, CPPI performed an impairment assessment as at December 31, 2022 on the property, plant and equipment of the pulp operations.

The recoverable amount of the property, plant and equipment within the pulp operations was determined based on an assessment of value in use, estimated using a discounted cash flow model. 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 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 9% (12% before tax), based on CPPI's weighted average cost of capital for 2022.

Subsequent to year-end, in early 2023, the Company announced the decision to permanently close the pulp line at CPPI's PG pulp and paper mill, as well as the Chetwynd sawmill and pellet plant.

As previously indicated, as a result of these announced closures, as well as the aforementioned impairment assessment, an asset write-down and impairment charge totaling $138.6 million was recognized for the year ended December 31, 2022. Of the $138.6 million, $89.0 million was recognized as a reduction of the carrying value of the Company's Western Canadian lumber operations and $49.6 million as a reduction to the carrying value of pulp assets within the pulp and paper segment.

Impairment of Goodwill

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

Goodwill is allocated separately to each of the Company's cash generating units and tested at that level for impairment purposes. The recoverable amount of goodwill is determined based on an assessment of value in use, estimated using discounted cash flow models. Key assumptions used in the cash flow models for both the US and Europe include forecast prices and foreign exchange rates, which Management determined with reference to both internal and external publications. For the 2022 goodwill impairment assessments, a discount rate of 10.0% (13.0% before tax for the US and 12.0% before tax for Europe) (2021 – 9.0%; 12.0% before tax for both the US and Europe) was utilized, based on the Company's current weighted average cost of capital for the US and Europe.

In this analysis prepared by Management, the net present value of future expected cash flows was compared to the carrying value of the Company's investment in these assets, including goodwill, at year end, with no impairment of goodwill required at December 31, 2022. If actual results are materially lower than the forecast assumptions, there is a possibility that an impairment of goodwill may be required in future periods.

Valuation of Log and Finished Product Inventories

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

RISKS AND UNCERTAINTIES

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

Climate Change

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

There are also transition risks associated with climate change. These include changes in laws, regulations and industry standards associated with climate change. The Company monitors all regulatory changes including any climate-related regulations, to assess their impacts on operations. The Company considers adaptation and mitigation strategies to manage and reduce greenhouse gas emissions and is in the process of establishing a decarbonization roadmap. However, there is no guarantee that these efforts will be effective, and these risks may lead to increased capital expenditures or payment of carbon taxes or other events that could adversely affect operations or financial condition.

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

Competitive Markets

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

Cyclicality of Product Prices

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

Environmental Issues

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

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

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

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

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

Fibre Cost and Availability

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

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

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

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

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

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

Financial Risk Management and Earnings Sensitivities

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

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

(a) Credit Risk:

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

Financial instruments that are subject to credit risk include cash and cash equivalents, trade and other accounts receivable, and certain investments and advances. Contract assets are also subject to credit risk. Cash and cash equivalents include cash held through major Canadian and international financial institutions as well as temporary investments that are readily convertible into known amounts of cash within three months or less from the date of acquisition. The cash and cash equivalents balance at December 31, 2022 is $1,268.7 million.

Canfor utilizes credit insurance to mitigate the risk associated with some of its trade accounts receivables. As at December 31, 2022, approximately 64% of the outstanding trade accounts receivables are covered by credit insurance. Canfor's trade accounts receivable balance at December 31, 2022 is $340.3 million, before a loss allowance of $4.3 million. At December 31, 2022, approximately 96% of the trade accounts receivable balance are within Canfor's established credit terms.

(b) Liquidity risk:

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

At December 31, 2022, Canfor had cash and cash equivalents of $1,268.7 million, with $27.8 million drawn on its operating loans and facilities, and $81.9 million reserved for several standby letters of credit, leaving $1,158.7 million available and undrawn. As a result, at December 31, 2022, Canfor had available liquidity of $2,427.4 million, accounts payable and accrued liabilities of $678.7 million, and term debt of $258.9 million. For details of the Company's term debt obligations and maturities refer to the "Other Commitments" section of this document.

(c) Market risk:

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

(i) *Interest rate risk*:

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

Canfor may use interest rate swaps to reduce its exposure to interest rate risk associated with financial obligations bearing variable interest rates. At December 31, 2022, the Company had no interest rate swaps outstanding.

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

(ii) *Currency risk:*

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

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax: (i) loss (gain) of approximately $3.3 million in relation to working capital balances denominated in US-dollars at year end (including cash, accounts receivable and accounts payable); and a (ii) gain (loss) of approximately $1.8 million in relation to term debt denominated in US-dollars.

A portion of the currency risk associated with US-dollar denominated sales is naturally offset by US-dollar denominated expenses. A portion of the remaining exposure is sometimes reduced by foreign exchange collar contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US-dollars.

The Company also sells certain products in GBP, AUD, EUR and NOK and holds US, SEK and AUD denominated operating loan and term debt facilities and limits its exposure to foreign exchange risk using forward foreign exchange contracts and foreign exchange options.

(iii) *Commodity price risk:*

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

(iv) *Energy price risk:*

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

The annual exposure is from time to time hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of eighteen months.

Earnings Sensitivities

Estimates of the sensitivity of Canfor's pre-tax results to currency fluctuations and prices for its principal products, based on 2023 forecast production and year end foreign exchange rates, are set out in the following table:

(millions of Canadian dollars)	Impact on annual pre-tax earnings
Western SPF lumber – US$10 change per Mfbm[56,57]	$ 30
SYP lumber – US$10 change per Mfbm[56,57]	$ 25
European lumber – SEK100 change per Mfbm[56,57]	$ 16
Softwood lumber duties – 5% change	$ 40
NBSK Pulp – US$10 change per tonne[58]	$ 8
Canadian dollar – 1% change per US dollar[59]	$ 15
Canadian dollar – 1% change per SEK[59]	$ 1

[56] Based on sales of Canfor-produced product, before softwood lumber duties.
[57] Excluding impacts of exchange rate, freight, discounting, potential change in fibre costs and other deductions.
[58] Includes 100% of CPPI.
[59] A 1% increase in the Canadian dollar per US-dollar or SEK results in a decrease to pre-tax annual earnings. A 1% decrease in the Canadian dollar per US-dollar or SEK results in an increase to pre-tax annual earnings.

Forest Health

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

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

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

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

The recent outbreak of spruce bark beetle in the Mackenzie TSA, the northeastern portion of the Prince George TSA and TFL 48 has caused Canfor to shift its harvesting into stands under imminent threat or of high susceptibility to spruce beetle infestation. Canfor is working collaboratively with other forest companies and with local and Provincial Government agencies to develop planning and harvesting tactics and strategies to arrest the spread of this pest as well as endeavor to maximize the salvage of the dead timber before its economic shelf life expires. At this time Canfor has sufficient capacity to handle the outbreak within its operating areas and has provided assistance to neighbouring operators who lack the harvesting capacity to address the issue.

A variety of tactics are being deployed to mitigate the spread and impact of the spruce beetle, including aerial and ground reconnaissance, trap trees, pheromone baiting, log yard and log transportation management, sanitation harvest (focused on leading edge attack zones) and finally salvage harvest. Canfor has also swiftly increased its capacity to harvest steep slopes where much of the spruce beetle outbreak currently exists.

Wildfire activity in Canfor operating areas remained relatively low in 2022. However, with significant warming trends in the summer, resultant severe drought, along with increased human recreational activity on the landscape, wildfire activity continues to grow. Spurred by record breaking wildfire seasons in 2017 and 2018, Canfor along with other forest companies and forest sector associations began to collaborate much more closely with BC Wildfire Service. The objectives were to strengthen wildfire preparedness through strategic placement of resources and better training, and to elevate response action effectiveness through better and more frequent communication, along with making company and contractor resources readily available where required.

Government and Other Regulations

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

Health & Safety

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

Indigenous Relations

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

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

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

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

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

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

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

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

The impacts of BC's *Declaration on the Rights of Indigenous Peoples Act*, the federal government's Bill C-15, the William decision, the Blueberry River decision and other proceedings presently before the courts in BC on the timber supply from Crown lands and on Canfor's operations is unknown at this time, especially as they pertain to Canfor's current timber supply and operational activities on the traditional territory of BRFN and other Indigenous Nations. As well, Canfor does not know if, how and to the extent these rulings or decisions will lead to changes in BC or federal laws or policies which may affect its forestry operations. However, there is the potential for adverse timber supply and operational implications associated with the outcome of these ongoing negotiations and issues. As these negotiations and issues relating to Indigenous rights and title develop, Canfor will continue to engage and cooperate with Indigenous Nations and the BC Government to foster good relationships and seek to minimize risks to Canfor's tenures and operational activities.

Inflation

Canfor relies on logs, wood chips, chemicals, gas, electricity, transportation and labour in its operations. Costs associated with these goods and services experienced unusual inflationary pressures throughout 2022. Continued inflationary pressures will increase Canfor's operating costs and reduce operating margins. There is no guarantee that the effects of these cost pressures would be fully offset through price increases, productivity improvements or cost-reduction initiatives.

Information Technology

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

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

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

Labour Agreements and Competition for Professional Skilled Labour

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

A new collective agreement with the United Steelworkers ("USW"), which represents the majority of the workers of the BC operations, was ratified in August of 2019. The new agreement will expire on June 30, 2023.

The contract with the Public and Private Workers of Canada ("PPWC"), which represents workers at Canfor's Mackenzie operation, expired on June 30, 2019. As the sawmill was indefinitely curtailed before the contract expired, an agreement was reached with the PPWC to postpone negotiations until such time as any change in status of the facility would necessitate negotiation of a new contract.

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

For the Company's European lumber operations, 44% of workers are represented by GS and Unionen, with the current agreements effective until March 31, 2023. The Company's operations in the US South are not unionized.

CPPI negotiated its collective agreements with UNIFOR and PPWC at its PG operations in February 2022. The new agreement will expire on April 30, 2025.

Maintenance Obligations and Facility Disruptions

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

Residual Fibre Revenues

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

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

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

Softwood Lumber Agreement

The Softwood Lumber Agreement expired on October 12, 2015 without being renewed or replaced. On November 25, 2016, a petition was filed by the US Lumber Coalition to the US DOC and ITC alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers, an assertion the Canadian industry and Provincial and Federal Governments strongly deny and have successfully disproven in international courts in the past. Canfor was selected by the DOC as a “mandatory respondent” to the countervailing and anti-dumping investigations and is subject to company specific countervailing and anti-dumping duties.

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

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

In early 2020, the DOC announced the preliminary results for the first period of review (POR1) and on November 24, 2020, finalized the rates. The Company’s final CVD rate was determined to be 2.94% for 2017 and 2.63% for 2018, while the final ADD rate was 1.99% for the entire first period of review. The DOC’s final combined duty and cash deposit rate of 4.62% applied to the Company’s Canadian lumber shipments destined to the United States from December 1, 2020 until completion of the administrative review for the second period of review on November 30, 2021.

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

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

Subsequent to year-end, in January 2023, the DOC announced the preliminary results for period of review (POR4), which indicated that the Company's preliminary CVD and ADD rate for 2021 was 2.04% and 5.25%, respectively.

Canfor and other Canadian forest product companies, the Federal Government and Canadian Provincial Governments continue to categorically deny the US allegations and strongly disagree with the current countervailing and anti-dumping determinations made by the DOC. Canada has proceeded with legal challenges under the US-Mexico-Canada Agreement and through the WTO, where Canadian litigation has proven successful in the past. Despite the reduced rates for POR3, no cash duties will be refunded to the Company until such time as the litigation regarding the imposition of CVD and ADD has been settled.

Species at Risk

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

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

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

Stumpage Rates

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

The BC Government is scheduled to make its next annual update to the MPS on July 1, 2023. Further changes to the BC Interior market driven stumpage system and resulting stumpage rates could have a material impact on Canfor's business. The Alberta Government will be reviewing their provincial stumpage rates (timber dues); however, the Company is not aware of any planned material changes at this point in time.

Transportation Services

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

OUTSTANDING SHARE DATA

At February 28, 2023, there were 124,493,600 common shares issued and outstanding.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related consolidated financial statements was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2022 and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR"). During the year, with the acquisition of Millar Western, the Company included the design of disclosure controls and procedures ("DC&P") and ICFR for its Millar Western operations within its ICFR framework. Based on procedures performed, there were no matters arising that materially affected, or would be reasonably likely to materially affect, the design and/or operating effectiveness of such controls for the Company, when taken as a whole.

The CEO and CFO confirm that there were no changes in the Company's ICFR during the year ended December 31, 2022 that materially affected, or would be reasonably likely to materially affect, such controls.

Based upon their evaluation of these controls for the year ended December 31, 2022, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2022 Annual Information Form, is available at www.sedar.com or at www.canfor.com.