



2023

FINANCIAL STATEMENTS

CANFOR CORPORATION

MANAGEMENT'S RESPONSIBILITY

The information and representations in these consolidated financial statements are the responsibility of Management and have been approved by the Board of Directors. The consolidated financial statements were prepared by Management in accordance with IFRS Accounting Standards and, where necessary, reflect Management's best estimates and judgments at this time. It is reasonably possible that circumstances may arise which cause actual results to differ.

Canfor Corporation maintains systems of internal controls over financial reporting, policies and procedures to provide reasonable assurance as to the reliability of the financial records and the safeguarding of its assets.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out these activities primarily through its Audit Committee.

The Audit Committee is comprised of four Directors who are not employees of the Company. The Audit Committee meets periodically throughout the year with Management, external auditors and internal auditors to review their respective responsibilities, results of the reviews of internal controls over financial reporting, policies and procedures and financial reporting matters. The external and internal auditors meet separately with the Audit Committee.

The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The consolidated financial statements have been audited by KPMG LLP, the external auditors, whose report follows.

March 5, 2024

"Donald B. Kayne"

Donald B. Kayne
President and Chief Executive Officer

"Patrick A. J. Elliott"

Patrick A. J. Elliott
Chief Financial Officer and Senior Vice President, Sustainability



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canfor Corporation

Opinion

We have audited the consolidated financial statements of Canfor Corporation (the Entity), which comprise:

- the consolidated balance sheets as at December 31, 2023 and December 31, 2022
- the consolidated statements of income (loss) for the years then ended
- the consolidated statements of other comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of the indications of impairment for property, plant and equipment and timber licenses related to the lumber segment

Description of the matter

We draw attention to Notes 3, 5, 7 and 19 to the financial statements. Property, plant and equipment and timber licenses are assessed at each reporting date to determine whether there are any indications of impairment, and an impairment test is performed whenever events or circumstances indicate that the carrying amounts may not be recoverable. The Entity has not identified any indications of impairment for the property, plant and equipment and timber licenses related to the lumber segment.

Why the matter is a key audit matter

We identified the assessment of the indications of impairment for property, plant and equipment and timber licenses related to the lumber segment as a key audit matter. This matter represented an area of higher risk of material misstatement given the magnitude of property, plant and equipment and timber licenses and high degree of estimation uncertainty in determining whether indications of impairment exist as of the balance sheet date. Significant auditor judgment was required in assessing the performance of certain Cash Generating Units ("CGUs") against expectations, changes in estimated lumber prices and the difference between the Entity's market capitalization and the carrying value of its net assets.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We assessed whether the information in the Entity's analysis was consistent with information included in Entity's press releases, management's discussion and analysis, and other public filings.
- We analyzed the components of the Entity's market capitalization reconciliation to the carrying value of its net assets.
- We inspected publicly available information related to changes in estimated lumber prices.
- We compared the 2023 fibre and production costs to historical fibre and production costs.



Assessment of the recoverable amount of the pulp and paper segment

Description of the matter

We draw attention to Notes 3, 5 and 13 to the financial statements. The Entity identified indicators of impairment for its pulp and paper segment's property, plant and equipment and performed an impairment test to estimate their recoverable amounts. The Entity has not recorded an impairment loss for the year ended December 31, 2023 (\$49.6 million for the year ended December 31, 2022). The recoverable amount of the pulp and paper segment is determined based on an assessment of value in use. Significant assumptions used in determining value in use include future production volumes, commodity prices, fibre and production costs and the discount rate.

Why the matter is a key audit matter

We identified the assessment of the recoverable amounts of the pulp and paper segment as a key audit matter. The value in use was sensitive to changes in certain significant assumptions. Significant auditor judgment was required to evaluate the results of our audit procedures. Further, specialized skills and knowledge were required in evaluating the discount rate.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We evaluated the appropriateness of forecasted production volumes and forecasted fibre and production costs of the Entity by comparing to actual historical production volumes and fibre and production costs. We considered changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.
- We compared forecasted commodity prices to third party industry pricing publications and to the Entity's historical realized pulp and paper prices over the past five years.
- We involved a valuation professional with specialized skills and knowledge, who assisted in evaluating the discount rate used in the estimated value in use by comparing to a discount range that was independently developed using publicly available market data for comparable entities.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2023 Canfor Corporation Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have



performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2023 Canfor Corporation Annual Report" is expected to be made available to us after the date of this auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance for the financial statements with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditor's report is Andrew James.

Vancouver, Canada

March 5, 2024

Canfor Corporation Consolidated Balance Sheets

(millions of Canadian dollars)	As at December 31, 2023	As at December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 627.4	\$ 1,268.7
Trade receivables	297.9	336.0
Other receivables	105.6	87.3
Income taxes recoverable	109.3	54.2
Inventories (Note 4)	994.8	1,180.7
Prepaid expenses and other	122.7	138.0
Total current assets	2,257.7	3,064.9
Property, plant and equipment (Note 5)	2,429.8	2,219.1
Right-of-use assets (Note 6(a))	123.1	99.1
Timber licenses (Note 7)	346.8	357.8
Goodwill and other intangible assets (Note 8)	519.3	532.1
Long-term investments and other (Note 9)	454.7	466.2
Total assets	\$ 6,131.4	\$ 6,739.2
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	\$ 664.5	\$ 678.7
Operating loans (Note 11)	110.6	27.8
Current portion of deferred reforestation obligations (Note 14)	52.6	60.4
Current portion of term debt (Note 12)	44.8	45.3
Current portion of lease obligations (Note 6(b))	30.6	26.2
Income taxes payable	2.1	45.2
Total current liabilities	905.2	883.6
Term debt (Note 12)	115.1	213.6
Retirement benefit obligations (Note 13)	132.9	158.3
Lease obligations (Note 6(b))	98.2	79.5
Deferred reforestation obligations (Note 14)	47.4	43.8
Other long-term liabilities (Note 15)	37.5	32.0
Put liability (Note 26)	187.7	172.7
Deferred income taxes, net (Note 20)	330.0	392.9
Total liabilities	\$ 1,854.0	\$ 1,976.4
EQUITY		
Share capital (Note 16)	\$ 938.3	\$ 955.1
Contributed surplus and other equity	(169.8)	(157.7)
Retained earnings	3,004.2	3,341.5
Accumulated other comprehensive income	45.5	82.6
Total equity attributable to equity shareholders of the Company	3,818.2	4,221.5
Non-controlling interests (Note 17)	459.2	541.3
Total equity	\$ 4,277.4	\$ 4,762.8
Total liabilities and equity	\$ 6,131.4	\$ 6,739.2

Commitments and Contingencies (Note 24) and Subsequent Events (Notes 13, 28 and 29)

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

APPROVED BY THE BOARD

"R.S. Smith"

Director, R.S. Smith

"The Hon. J.R. Baird"

Director, The Hon. J.R. Baird

Canfor Corporation Consolidated Statements of Income (Loss)

(millions of Canadian dollars, except per share data)	Years ended December 31,	
	2023	2022
Sales	\$ 5,426.6	\$ 7,426.7
Costs and expenses		
Manufacturing and product costs	4,519.4	4,795.0
Freight and other distribution costs	688.8	790.6
Countervailing and anti-dumping duty expense, net (Note 28)	143.8	49.1
Amortization	420.4	397.2
Selling and administration costs	170.4	174.2
Restructuring costs (Note 19)	15.4	7.9
Asset write-downs and impairments (Note 19)	-	138.6
	5,958.2	6,352.6
Operating income (loss)	(531.6)	1,074.1
Finance income, net (Note 18)	10.4	1.0
Foreign exchange gain (loss) on term debt	6.9	(12.4)
Foreign exchange gain (loss) on duties recoverable, net	(2.4)	14.8
Gain on derivative financial instruments (Note 26)	6.8	3.9
Other income, net	19.9	27.1
Net income (loss) before income taxes	(490.0)	1,108.5
Income tax recovery (expense) (Note 20)	141.5	(247.4)
Net income (loss)	\$ (348.5)	\$ 861.1
Net income (loss) attributable to:		
Equity shareholders of the Company	\$ (326.1)	\$ 787.3
Non-controlling interests (Note 17)	(22.4)	73.8
Net income (loss)	\$ (348.5)	\$ 861.1
Net income (loss) per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 16)	\$ (2.71)	\$ 6.39

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

Canfor Corporation
Consolidated Statements of Other Comprehensive Income (Loss)

(millions of Canadian dollars)	Years ended December 31,	
	2023	2022
Net income (loss)	\$ (348.5)	\$ 861.1
Other comprehensive income (loss)		
Items that will not be reclassified subsequently to net income (loss):		
Defined benefit plan actuarial gains, net (Note 13)	22.4	36.8
Income tax expense on defined benefit plan actuarial gains, net (Note 20)	(6.0)	(9.9)
	16.4	26.9
Items that may be reclassified subsequently to net income (loss):		
Foreign exchange translation of foreign operations, net of tax	(37.1)	36.7
Other comprehensive income (loss), net of tax	(20.7)	63.6
Total comprehensive income (loss)	\$ (369.2)	\$ 924.7
Total comprehensive income (loss) attributable to:		
Equity shareholders of the Company	\$ (349.4)	\$ 845.7
Non-controlling interests (Note 17)	(19.8)	79.0
Total comprehensive income (loss)	\$ (369.2)	\$ 924.7

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

Canfor Corporation Consolidated Statements of Changes in Equity

(millions of Canadian dollars)	Years ended December 31,	
	2023	2022
Share capital		
Balance at beginning of year	\$ 955.1	\$ 982.2
Share purchases (Note 16)	(16.8)	(27.1)
Balance at end of year	\$ 938.3	\$ 955.1
Contributed surplus and other equity		
Balance at beginning of year	\$ (157.7)	\$ (130.9)
Put liability (Note 26)	(12.1)	(26.8)
Balance at end of year	\$ (169.8)	\$ (157.7)
Retained earnings		
Balance at beginning of year	\$ 3,341.5	\$ 2,586.8
Net income (loss) attributable to equity shareholders of the Company	(326.1)	787.3
Defined benefit plan actuarial gains, net of tax	13.8	21.7
Share purchases (Note 16)	(25.0)	(54.3)
Balance at end of year	\$ 3,004.2	\$ 3,341.5
Accumulated other comprehensive income		
Balance at beginning of year	\$ 82.6	\$ 45.9
Foreign exchange translation of foreign operations, net of tax	(37.1)	36.7
Balance at end of year	\$ 45.5	\$ 82.6
Total equity attributable to equity shareholders of the Company	\$ 3,818.2	\$ 4,221.5
Non-controlling interests		
Balance at beginning of year	\$ 541.3	\$ 525.1
Net income (loss) attributable to non-controlling interests	(22.4)	73.8
Defined benefit plan actuarial gains attributable to non-controlling interests, net of tax	2.6	5.2
Distributions to non-controlling interests (Note 17)	(62.3)	(62.8)
Balance at end of year (Note 17)	\$ 459.2	\$ 541.3
Total equity	\$ 4,277.4	\$ 4,762.8

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

Canfor Corporation

Consolidated Statements of Cash Flows

Years ended December 31,

(millions of Canadian dollars)

	2023	2022
Cash generated from (used in):		
Operating activities		
Net income (loss)	\$ (348.5)	\$ 861.1
Items not affecting cash:		
Amortization	420.4	397.2
Income tax recovery (expense) (Note 20)	(141.5)	247.4
Change in long-term portion of deferred reforestation obligations, net	1.9	(16.6)
Foreign exchange (gain) loss on term debt	(6.9)	12.4
Foreign exchange (gain) loss on duties recoverable, net	2.4	(14.8)
Duties paid (greater) less than accruals (Note 28)	100.7	(156.3)
Changes in mark-to-market value of derivative financial instruments	(2.6)	(4.1)
Employee future benefits expense	12.5	11.1
Finance income, net (Note 18)	(10.4)	(1.0)
Restructuring costs (Note 19)	15.4	7.9
Asset write-downs and impairments (Note 19)	-	138.6
Other, net	6.5	18.2
Defined benefit plan contributions, net	(24.2)	(12.2)
Income taxes paid, net	(33.8)	(462.6)
	(8.1)	1,026.3
Net change in non-cash working capital (Note 21)	162.8	86.7
	154.7	1,113.0
Financing activities		
Operating loan drawings, net (Note 11)	83.2	10.7
Repayments and conversion of term debt, net (Note 12)	(96.1)	(0.4)
Payments of lease obligations (Note 6(b))	(32.5)	(26.9)
Finance expenses paid	(33.6)	(21.1)
Share purchases (Note 16)	(44.3)	(78.9)
Cash distributions paid to non-controlling interests (Note 17)	(62.3)	(62.8)
	(185.6)	(179.4)
Investing activities		
Additions to property, plant and equipment and intangible assets, net (Notes 5 and 8)	(587.0)	(625.3)
Acquisition of Millar Western (Note 27)	-	(434.0)
Interest income received	35.2	11.6
Purchase of long-term investments (Notes 9 and 26)	(59.4)	-
Other, net	7.5	1.1
	(603.7)	(1,046.6)
Foreign exchange gain (loss) on cash and cash equivalents	(6.7)	26.9
Decrease in cash and cash equivalents*	(641.3)	(86.1)
Cash and cash equivalents at beginning of year*	1,268.7	1,354.8
Cash and cash equivalents at end of year*	\$ 627.4	\$ 1,268.7

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

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

Canfor Corporation

Notes to the Consolidated Financial Statements

Years ended December 31, 2023 and December 31, 2022

1. Reporting Entity

Canfor Corporation is a company incorporated and domiciled in Canada and listed on the Toronto Stock Exchange. The address of the Company's registered office is 161 East 4th Avenue, Vancouver, British Columbia, Canada, V5T 1G4. The consolidated financial statements of the Company as at and for the year ended December 31, 2023 comprise the accounts of Canfor Corporation and its subsidiaries, hereinafter referred to as "Canfor" or "the Company." Significant subsidiaries include Canfor Southern Pine, Inc. ("CSP"), and entities related to the acquisition of Millar Western Forest Products Ltd. ("Millar Western"), which are wholly owned, as well as Canfor Pulp Products Inc. ("CPPI") and the Vida Group ("Vida"), of which Canfor owned 54.8% and 70.0%, respectively, at December 31, 2023.

Canfor is an integrated forest products company with facilities in Canada, the United States ("US") and Europe. The Company produces softwood lumber, pulp and paper products, remanufactured lumber products, engineered wood and other lumber-related products, wood pellets, and energy.

2. Basis of Preparation

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with IFRS Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on March 5, 2024.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for certain items as discussed in the applicable accounting policies under Note 3.

Use of estimates and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Company regularly reviews its estimates and assumptions; however, it is possible that circumstances may arise which may cause actual results to differ from Management's estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about the significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the applicable notes:

- Note 4 – Inventories;
- Note 5 – Property, Plant and Equipment;
- Note 8 – Goodwill and Other Intangible Assets;
- Note 9 – Long-Term Investments and Other;
- Note 13 – Employee Future Benefits;
- Note 19 – Asset Write-Downs, Impairments, and Restructuring Costs;
- Note 20 – Income Taxes;
- Note 27 – Millar Western Acquisition; and
- Note 28 – Countervailing and Anti-Dumping Duties.

3. Material Accounting Policies

The following accounting policies have been applied to the financial information presented.

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when Canfor is able to govern the financial and operating activities of those other entities to generate returns for the Company. Inter-company transactions, balances and unrealized gains and losses on transactions between different entities within the Company are eliminated.

Associates are those entities in which Canfor exercises significant influence, but not control, over financial and operating policies. Unless circumstances indicate otherwise, significant influence is presumed to exist when Canfor holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and

are recognized initially at cost. The consolidated financial statements include Canfor's share of the post-acquisition income and expenses and equity movement of these equity accounted investees. Joint ventures are accounted for using the equity method of accounting.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date. Canfor measures goodwill at the acquisition date as the fair value of the consideration transferred, including any non-controlling interest when applicable, less the fair value of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in net income. Transaction costs in connection with business combinations are expensed as incurred.

Financial instruments

Financial instruments comprise cash and cash equivalents, trade and other accounts receivable, certain investments and advances, net duty deposits recoverable, derivative instruments, accounts payable and accrued liabilities, other liabilities, operating loans and term debt, as well as the Company's put liability. Canfor uses derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange, interest rate, lumber price and energy price risks. Canfor's policy is not to utilize derivative financial instruments for trading or speculative purposes. Canfor's derivative financial instruments are not designated as hedges for accounting purposes.

Classification and measurement of financial assets

Financial assets are classified as either measured at amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through net income ("FVTPL") based on the business model in which a financial asset is managed, its contractual cash flow characteristics and when certain conditions are met:

- Amortized cost – measured at amortized cost using the effective interest rate method. Where applicable, amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairments are recognized in net income.
- FVOCI – measured at FVOCI if not designated as FVTPL. Interest income, foreign exchange gains and losses and impairments are recognized in net income. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in Other Comprehensive Income ("OCI") are reclassified to net income.
- FVTPL – measured at FVTPL if not classified as amortized cost or FVOCI with net gains and losses, including any interest or dividend income, recognized in net income.

Equity investments are required to be classified as measured at fair value. However, on initial recognition of an equity investment that is not held-for-trading, the Company may irrevocably elect to present subsequent changes in the investments' fair value in other comprehensive income. This election is made on an investment-by-investment basis. The Company currently records gains and losses on its equity investments in net income.

Classification and measurement of financial liabilities

Financial liabilities (other than the put liability) are classified as either measured at amortized cost or FVTPL. A financial liability is classified as FVTPL if it is held-for-trading, a derivative, or if it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value with net gains and losses, including interest expense, recognized in net income. Other financial liabilities are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method. Any gains or losses on derecognition of financial liabilities (other than the put liability) are also recognized in net income. The Company's put liability is measured initially at fair value with subsequent net gains and losses recognized in other equity ("FVTEQ"). Interest expense and foreign exchange gains and losses of all financial liabilities are recognized in net income.

Canfor's financial instruments are classified and subsequently measured as follows:

Financial Assets:	
Cash and cash equivalents	Amortized cost
Trade and other accounts receivable	Amortized cost
Long-term advances and other assets	Amortized cost
Duty deposits recoverable, net	FVTPL
Other investments	FVTPL
Derivative contracts	FVTPL
Foreign exchange forward contracts	FVTPL
Financial Liabilities:	
Accounts payable and accrued liabilities	Amortized cost
Other liabilities	Amortized cost
Operating loans	Amortized cost
Term debt	Amortized cost
Put liability	FVTEQ

Impairment

The Company applies the simplified approach in determining expected credit losses ("ECLs"), which requires a probability-weighted estimate of expected lifetime credit losses to be recognized upon initial recognition of financial assets measured at amortized cost and contract assets. Credit losses are measured as the present value of cash shortfalls from all possible default events, discounted at the effective interest rate of the financial asset. Any loss allowances for financial assets at amortized cost are deducted from the gross carrying amount of the assets.

Inventories

Inventories include logs, lumber, engineered wood and other lumber-related products, pulp, paper, wood pellets, chips, and materials and supplies. These are measured at the lower of cost and net realizable value and are presented net of applicable write-downs. The cost of inventories 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. The Company estimates the net realizable value of inventories based on 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.

Leases

Lease definition

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

Measurement of right-of-use assets and lease obligations

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

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

The lease obligation is initially measured at the present value of lease payments remaining at the lease commencement date, discounted using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease obligation, when applicable, may comprise fixed payments, variable payments that depend on an index or

rate, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase, extension or termination option that the Company is reasonably certain to exercise.

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

Recognition exemptions

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

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated amortization, write-downs and impairment losses.

Cost includes expenditures which are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs (as applicable), and any other costs directly attributable to bringing assets to the location and condition necessary for it to be used in the manner intended by Management.

The cost of replacing a major component of an item of property, plant and equipment is recognized in the carrying amount of the item if the future economic benefits embodied within the component part will flow to Canfor and its cost can be measured reliably. The carrying amount of the replaced component is removed. The costs of the day-to-day servicing of property, plant and equipment are recognized in net income as incurred.

Amortization is recognized in net income on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, as set out in the table below. Land is not amortized.

Amortization methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date. The following rates have been applied to Canfor's capital assets:

Buildings	5 to 50 years
Pulp and paper machinery and equipment	8 to 20 years
Sawmill machinery and equipment	1 to 15 years
Logging machinery and equipment	4 to 20 years
Logging roads and bridges	5 to 25 years
Mobile and other equipment	2 to 10 years

Timber licenses

Timber licenses include tree farm licenses, forest licenses and timber licenses with the Provinces of British Columbia and Alberta. Timber licenses are carried at cost less accumulated amortization and impairment losses. Renewable licenses are amortized using the straight-line method over 50 years, while non-renewable licenses are amortized over the period of the license.

Other intangible assets

Goodwill

Goodwill represents the excess of the cost of a business acquisition over the fair value of Canfor's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses.

Computer software

Software development costs relate to major software systems purchased or developed by the Company. These costs are amortized on a straight-line basis over periods ranging from four to ten years.

Asset impairments

Canfor's property, plant and equipment, ROU assets, timber licenses and other intangible assets are assessed at each reporting date to determine whether there are any indications of impairment, and an impairment test is performed whenever events or circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized in net income at the amount 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of cash inflows from other assets or groups of assets (cash-generating unit).

Non-financial assets, other than goodwill, for which impairment was recorded in a prior period, are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset cannot exceed the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized in prior years.

For the purpose of impairment testing, goodwill is allocated to the Company's operating regions which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes.

Employee future benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity makes contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee future benefits expense when they are earned.

For hourly employees covered by forest industry union defined contribution or benefit plans, the consolidated statement of income is charged with the Company's contributions required under the collective agreements.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Canfor has various defined benefit plans that provide both pension and other non-pension post-retirement benefits to certain salaried employees, and certain hourly employees not covered by forest industry union plans. The other non-pension post-retirement benefits include certain health care benefits and pension bridging benefits to eligible retired employees.

The surplus and/or obligation recognized in the consolidated balance sheet in respect of a defined benefit pension plan is the net of the accrued benefit obligation and the fair value of the plan assets. The accrued benefit obligation, the related service cost and, where applicable, the past service cost is determined separately for each defined benefit pension plan based on actuarial determinations. The accrued benefit obligation is calculated as the present value of each member's prospective benefits earned in respect of credited service prior to the valuation date and the related service cost is calculated as the present value of the benefits the member is assumed to earn for credited service in the ensuing year. The actuarial assumptions used in these calculations, such as salary escalation and health care inflation, are based upon best estimates selected by Canfor. The discount rate assumptions are based on the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of Canfor's obligations.

Actuarial gains and losses can arise from differences between actual and expected outcomes or changes in the actuarial assumptions or legislated amounts payable. Actuarial gains and losses, including the return on plan assets, are recognized in other comprehensive income in the period in which they occur.

A gain or loss on settlement is recognized in net income, calculated as the difference between the present value of the defined benefit obligation being settled, as determined on the date of settlement, and the settlement amount.

Provisions

Canfor recognizes a provision if, as a result of a past event, it has 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. The provision recorded is Management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The expense arising from the unwinding of the discount due to the passage of time is recorded as a finance expense. The main classes of provisions recognized by Canfor are as follows:

Asset retirement obligations

Canfor recognizes liabilities for asset retirement obligations in the period in which they are incurred. The site restoration costs are capitalized as part of the cost of the related item of property, plant and equipment and amortized on a basis consistent with the expected useful life of the related asset. Asset retirement obligations are discounted at the risk-free rate in effect at the balance sheet date.

Deferred reforestation obligations

Forestry legislation in British Columbia and Alberta requires Canfor to incur the cost of reforestation of its forest, timber and tree farm licenses and forest management agreements. Accordingly, Canfor records an expense and a liability for the costs of reforestation in the period in which the timber is harvested. In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to Management's estimates are recognized in net income as they occur. Deferred reforestation obligations are discounted at the risk-free rate in effect at the balance sheet date.

Restructuring

A provision for restructuring is recognized as an expense and a liability, when Canfor has approved a detailed and formal restructuring plan, which may include the indefinite or permanent closure of one of its operations, and the restructuring has either commenced, or has been announced publicly. Provisions are not recognized for future operating costs.

Revenue recognition

Canfor's revenues are derived from the sale of lumber, engineered wood and other lumber-related products, pulp, paper, residual fibre, logs, wood pellets and energy. Revenue is measured based on the consideration specified in a contract with a customer, net of applicable sales taxes, returns, rebates and discounts and after eliminating sales within the Company. Revenue is recognized when the Company transfers the control of a product to a customer. Energy revenue is recognized at month-end based on energy produced and transferred to the customer under the terms and conditions of electricity purchase and load displacement agreements.

The timing of transfer of control to customers varies depending on the individual terms of the contract of sale, but is typically as follows for Canfor's principal revenue generating activities:

- *Lumber* – At the time lumber and lumber-related products are loaded onto a truck or rail carrier, upon vessel departure, or when lumber and lumber-related products have been picked up by the buyer at a designated transfer point at the Company's mill or warehouse. The amount of revenue recognized is adjusted for volume rebates and discounts at the point in time control is transferred.
- *Pulp and Paper* – At the time pulp and paper is loaded onto a truck or rail carrier, upon vessel departure, upon delivery, as the goods are used by the customer, or when pulp and paper has been picked up by the buyer at a designated transfer point at the Company's mill or warehouse. The amount of revenue recognized is adjusted for commissions, volume rebates and discounts at the point in time control is transferred.

Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by Canfor are reported as a component of freight and other distribution costs. Countervailing and anti-dumping duties are recorded as a component of operating income.

Income taxes

Income tax expense comprises current and deferred taxes. Current and deferred taxes are recognized in net income except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Canfor recognizes deferred income tax in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at tax rates expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that

the related tax benefit will be realized. Investment tax credits are credited to manufacturing and product costs in the period in which it becomes reasonably assured that the Company is entitled to them. Unused investment tax credits are recorded as other current or long-term assets in the Company's consolidated balance sheet, depending upon when the benefit is expected to be received.

Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The majority of Canfor's sales are denominated in foreign currencies, primarily the US-dollar, as well as Swedish Krona ("SEK"). Transactions in foreign currencies are translated to the functional currency at exchange rates on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate on that date. Foreign currency differences arising on translation are recognized in net income.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Canadian dollar at exchange rates on the reporting date. The income and expenses of foreign operations are translated to the Canadian dollar at exchange rates on the transaction dates. Foreign exchange differences arising from translation of foreign operations are recognized in other comprehensive income and recorded to the accumulated foreign exchange translation account. Canfor's foreign operations include CSP, Vida, and all entities owned or partly owned by CSP and Vida.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. Segment results reported to the chief operating decision-maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-bearing liabilities, head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, timber licenses and intangible assets, other than goodwill.

4. Inventories

(millions of Canadian dollars)	As at December 31, 2023	As at December 31, 2022
Logs	\$ 199.4	\$ 305.3
Finished products	600.6	693.5
Residual fibre	38.2	27.0
Materials and supplies	156.6	154.9
	\$ 994.8	\$ 1,180.7

The above inventory balances are stated at the lower of cost and net realizable value. For the year ended December 31, 2023, a \$54.8 million net reversal of a previously recognized inventory write-down was recognized for the lumber segment (2022 - \$95.7 million net inventory write-down expense). At December 31, 2023, an inventory provision of \$40.9 million has been recognized for logs and lumber (December 31, 2022 - \$95.7 million inventory).

For the year ended December 31, 2023, a \$2.4 million net reversal of a previously recognized inventory write-down was recorded for the pulp and paper segment (2022 - \$2.2 million net recovery of a previous write-down). At December 31, 2023, no inventory provision has been recognized for the pulp and paper segment (December 31, 2022 - provision of \$2.4 million related to logs).

Inventory expensed in 2023 and 2022 is included in 'Manufacturing and product costs' and 'Amortization' on the consolidated statement of income (loss).

5. Property, Plant and Equipment

(millions of Canadian dollars)	Land	Pulp and paper mills	Solid wood operations ²	Logging assets and other equipment	Construction in progress	Total
Cost						
Balance at January 1, 2022	\$ 58.2	\$ 1,856.2	\$ 2,795.1	\$ 259.5	\$ 198.3	\$ 5,167.3
Additions ¹	-	-	17.2	-	598.5	615.7
Acquisition (Note 27)	15.2	-	219.8	1.7	-	236.7
Disposals	-	(33.2)	(40.3)	(12.0)	-	(85.5)
Transfers	-	105.5	249.7	19.3	(374.5)	-
Effect of movements in exchange rates	1.3	-	18.2	0.6	13.2	33.3
Balance at December 31, 2022	\$ 74.7	\$ 1,928.5	\$ 3,259.7	\$ 269.1	\$ 435.5	\$ 5,967.5
Additions ¹	1.0	0.4	2.2	-	584.3	587.9
Disposals	-	(62.0)	(52.6)	(1.5)	-	(116.1)
Transfers	0.6	55.9	464.7	40.4	(561.6)	-
Effect of movements in exchange rates	-	-	(21.2)	(0.3)	(6.4)	(27.9)
Balance at December 31, 2023	\$ 76.3	\$ 1,922.8	\$ 3,652.8	\$ 307.7	\$ 451.8	\$ 6,411.4
Amortization and Impairments						
Balance at January 1, 2022	\$ (1.7)	\$ (1,426.5)	\$ (1,721.3)	\$ (205.1)	\$ -	\$ (3,354.6)
Amortization for the year	-	(90.6)	(239.7)	(15.4)	-	(345.7)
Disposals	-	31.1	37.5	11.8	-	80.4
Asset write-downs and impairments (Note 19)	-	(49.6)	(61.6)	-	-	(111.2)
Transfers	-	-	(0.4)	0.4	-	-
Effect of movements in exchange rates	-	-	(17.1)	(0.2)	-	(17.3)
Balance at December 31, 2022	\$ (1.7)	\$ (1,535.6)	\$ (2,002.6)	\$ (208.5)	\$ -	\$ (3,748.4)
Amortization for the year	-	(77.8)	(266.9)	(19.5)	-	(364.2)
Disposals and transfers	-	72.1	48.5	2.1	-	122.7
Effect of movements in exchange rates	-	-	8.3	-	-	8.3
Balance at December 31, 2023	\$ (1.7)	\$ (1,541.3)	\$ (2,212.7)	\$ (225.9)	\$ -	\$ (3,981.6)
Carrying Amounts						
At January 1, 2022	\$ 56.5	\$ 429.7	\$ 1,073.8	\$ 54.4	\$ 198.3	\$ 1,812.7
At December 31, 2022	\$ 73.0	\$ 392.9	\$ 1,257.1	\$ 60.6	\$ 435.5	\$ 2,219.1
At December 31, 2023	\$ 74.6	\$ 381.5	\$ 1,440.1	\$ 81.8	\$ 451.8	\$ 2,429.8

¹ Net of capital expenditures by CPPI that are financed by government grants.

² Solid Wood operations include those sawmills, pellet plants, engineered wood and other lumber-related product plants, plywood and oriented strand board plants that are consolidated on a line-by-line basis.

6. Leases

(a) Right-of-Use Assets

(millions of Canadian dollars)	Land	Pulp and paper mills	Solid wood operations	Logging assets and other equipment	Facilities and other	Total
Cost						
Balance at January 1, 2022	\$ 1.6	\$ 9.2	\$ 97.1	\$ 8.7	\$ 24.3	\$ 140.9
Additions	2.1	0.8	22.7	3.1	29.8	58.5
Disposals and transfers	-	(0.7)	(10.4)	(2.7)	(1.9)	(15.7)
Effect of movements in exchange rates	0.1	(0.1)	5.2	0.3	0.4	5.9
Balance at December 31, 2022	\$ 3.8	\$ 9.2	\$ 114.6	\$ 9.4	\$ 52.6	\$ 189.6
Additions	-	0.8	49.2	3.3	6.7	60.0
Disposals and transfers	-	(0.7)	(15.1)	(2.3)	(0.5)	(18.6)
Effect of movements in exchange rates	(0.1)	-	(2.5)	(0.1)	(0.1)	(2.8)
Balance at December 31, 2023	\$ 3.7	\$ 9.3	\$ 146.2	\$ 10.3	\$ 58.7	\$ 228.2
Amortization						
Balance at January 1, 2022	\$ (1.0)	\$ (7.1)	\$ (45.2)	\$ (5.1)	\$ (17.0)	\$ (75.4)
Amortization for the year	(0.2)	(1.1)	(20.2)	(2.4)	(2.9)	(26.8)
Disposals and transfers	-	0.6	9.9	2.1	1.8	14.4
Effect of movements in exchange rates	-	0.2	(2.8)	(0.1)	-	(2.7)
Balance at December 31, 2022	\$ (1.2)	\$ (7.4)	\$ (58.3)	\$ (5.5)	\$ (18.1)	\$ (90.5)

(millions of Canadian dollars)	Land	Pulp and paper mills	Solid wood operations	Logging assets and other equipment	Facilities and other	Total
Amortization for the year	(0.2)	(0.9)	(24.7)	(2.2)	(4.2)	(32.2)
Disposals and transfers	-	0.7	13.5	1.8	0.2	16.2
Effect of movements in exchange rates	-	-	1.3	-	0.1	1.4
Balance at December 31, 2023	\$ (1.4)	\$ (7.6)	\$ (68.2)	\$ (5.9)	\$ (22.0)	\$ (105.1)
Carrying Amounts						
At January 1, 2022	\$ 0.6	\$ 2.1	\$ 51.9	\$ 3.6	\$ 7.3	\$ 65.5
At December 31, 2022	\$ 2.6	\$ 1.8	\$ 56.3	\$ 3.9	\$ 34.5	\$ 99.1
At December 31, 2023	\$ 2.3	\$ 1.7	\$ 78.0	\$ 4.4	\$ 36.7	\$ 123.1

(b) Lease Obligations

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

(millions of Canadian dollars)	As at December 31, 2023	As at December 31, 2022
Within one year	\$ 35.9	\$ 29.5
Between one and five years	71.7	55.8
Beyond five years	48.0	39.0
Total undiscounted lease obligations	\$ 155.6	\$ 124.3

Interest expense on lease obligations for 2023 was \$5.3 million (2022 – \$2.9 million) and is included in 'Finance income net' on the consolidated statement of income (loss).

Operating lease expenses relating to short-term and low-value leases not included in the measurement of lease obligations for 2023 were \$11.6 million (2022 – \$7.5 million). The variable lease expense not included in the measurement of lease obligations for 2023 was nominal (2022 – nominal).

Total cash outflows for leases in 2023 were \$44.1 million, including \$11.6 million for short-term and low-value leases, as well as variable lease expenses (2022 – \$34.4 million and \$7.5 million, respectively).

7. Timber Licenses

(millions of Canadian dollars)	
Cost	
Balance at January 1, 2022	\$ 682.2
Acquisition (Note 27)	83.7
Balance at December 31, 2022 and December 31, 2023	\$ 765.9
Amortization and Impairment	
Balance at January 1, 2022	\$ (369.0)
Amortization for the year	(11.7)
Asset write-down and impairment (Note 19)	(27.4)
Balance at December 31, 2022	\$ (408.1)
Amortization for the year	(11.0)
Balance at December 31, 2023	\$ (419.1)
Carrying amounts	
At January 1, 2022	\$ 313.2
At December 31, 2022	\$ 357.8
At December 31, 2023	\$ 346.8

8. Goodwill and Other Intangible Assets

(millions of Canadian dollars)	Goodwill		Other intangible assets		Total
Cost					
Balance at January 1, 2022	\$	477.0	\$	115.1	\$ 592.1
Additions		-		8.5	8.5
Acquisition (Note 27)		26.4		-	26.4
Derecognition of goodwill		(10.5)		-	(10.5)
Disposals		-		(2.4)	(2.4)
Effect of movement in exchange rates		5.6		1.5	7.1
Balance at December 31, 2022	\$	498.5	\$	122.7	\$ 621.2
Additions		-		4.9	4.9
Disposals		-		(0.8)	(0.8)
Effect of movement in exchange rates		(4.6)		(0.5)	(5.1)
Balance at December 31, 2023	\$	493.9	\$	126.3	\$ 620.2
Amortization					
Balance at January 1, 2022	\$	-	\$	(77.3)	\$ (77.3)
Amortization for the year		-		(13.0)	(13.0)
Disposals		-		2.4	2.4
Effect of movement in exchange rates		-		(1.2)	(1.2)
Balance at December 31, 2022	\$	-	\$	(89.1)	\$ (89.1)
Amortization for the year		-		(13.0)	(13.0)
Disposals		-		0.8	0.8
Effect of movement in exchange rates		-		0.4	0.4
Balance at December 31, 2023	\$	-	\$	(100.9)	\$ (100.9)
Carrying amounts					
At January 1, 2022	\$	477.0	\$	37.8	\$ 514.8
At December 31, 2022	\$	498.5	\$	33.6	\$ 532.1
At December 31, 2023	\$	493.9	\$	25.4	\$ 519.3

Canfor's goodwill at December 31, 2023 relates to its US (\$285.5 million), European (\$182.0 million) and Canadian (\$26.4 million) subsidiaries and is denominated in United States dollars, SEK and Canadian dollars, respectively. Goodwill is allocated separately to each of the Company's cash generating units and tested at that level for impairment purposes. The recoverable amount of goodwill is determined based on assessments of value in use, estimated using discounted cash flow models.

Key assumptions used in the cash flow models include forecast prices and foreign exchange rates, which Management determined with reference to both internal and external publications, as well as future production volume, log and production costs. For the 2023 goodwill impairment assessments, a discount rate of 10% for the US and Europe and 11% for Canada (13% before tax for the US, 12% before tax for Europe, and 15% before tax for Canada) (2022 – discount rate of 10%; 13% and 12%, before tax for the US and Europe, respectively) was utilized, based on the Company's current weighted average cost of capital. In this analysis prepared by Management, the net present value of future expected cash flows was compared to the carrying value of the Company's investment in these assets, including goodwill, as at December 31, 2023, with no impairment of goodwill required for 2023.

9. Long-Term Investments and Other

(millions of Canadian dollars)	As at December 31, 2023		As at December 31, 2022	
Duty deposits recoverable, net (Note 28)	\$	289.5	\$	372.9
Other deposits, loans, advances and long-term assets		54.2		49.3
Other investments (Note 26)		90.8		33.4
Retirement benefit surplus (Note 13)		10.8		9.6
Deferred income taxes, net (Note 20)		9.4		1.0
	\$	454.7	\$	466.2

The duty deposits recoverable, net balance represents US-dollar countervailing duties (“CVD”) and anti-dumping duties (“ADD”) and duty cash deposits paid in excess of the calculated expense accrued at December 31, 2023, including interest receivable of \$60.8 million (December 31, 2022 – \$40.8 million), as well as a \$43.3 million (US\$34.7 million) receivable recognized in the third quarter of 2023 upon finalization of the CVD and ADD rates applicable to the fourth period of review (Note 28).

During the year ended December 31, 2023, the Company purchased investments in certain funds at a cost of \$59.4 million (2022 – nil). These highly liquid investments with maturities exceeding one year, were subsequently measured at fair value through net income (loss) and classified as level 1 (Note 26).

10. Accounts Payable and Accrued Liabilities

(millions of Canadian dollars)	As at December 31, 2023	As at December 31, 2022
Trade payables and accrued liabilities	\$ 540.5	\$ 525.7
Accrued payroll and related liabilities	124.0	153.0
	\$ 664.5	\$ 678.7

11. Operating Loans

(millions of Canadian dollars)	As at December 31, 2023	As at December 31, 2022
Canfor (excluding Vida and CPPI)		
Available operating loans:		
Operating loan facility	\$ 775.0	\$ 775.0
Revolving credit facility (US\$150.0 million)	198.4	203.2
Facilities for letters of credit	70.0	70.0
Total operating loan facilities	1,043.4	1,048.2
Letters of credit covered under operating loan facility	(2.7)	(2.7)
Letters of credit covered under facilities for letters of credit	(53.9)	(66.3)
Total available operating loan facilities - Canfor	\$ 986.8	\$ 979.2
Vida		
Available operating loans:		
Operating loan facilities	\$ 67.2	\$ 66.4
Overdraft facilities	44.0	43.8
Total operating loan facilities	111.2	110.2
Operating loan facilities drawn	(3.6)	(12.8)
Total available operating loan facilities - Vida	\$ 107.6	\$ 97.4
CPPI		
Available operating loans:		
Operating loan facility	\$ 160.0	\$ 110.0
Letters of credit	(6.9)	(12.9)
Operating loan facility drawn	(107.0)	(15.0)
Total available operating loan facility - CPPI	\$ 46.1	\$ 82.1
Consolidated:		
Total operating loan facilities	\$ 1,314.6	\$ 1,268.4
Total operating loan facilities drawn	\$ (110.6)	\$ (27.8)
Total letters of credit	\$ (63.5)	\$ (81.9)
Total available operating loan facilities	\$ 1,140.5	\$ 1,158.7

On May 2, 2023, CPPI converted its \$50.0 million non-revolving term debt (Note 12) into its existing \$110.0 million committed operating loan facility, thereby increasing the principal amount of its existing committed operating facility to \$160.0 million. The operating loan facility is repayable on May 2, 2027.

On June 28, 2023, Canfor (excluding Vida and CPPI) extended its US\$150.0 million committed revolving credit facility to June 28, 2024. On June 28, 2024, any amounts drawn on the committed revolving credit facility will be converted to US-dollar denominated floating rate term debt, with a maturity date of June 28, 2029. Canfor’s committed operating loan facility is repayable on 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 floating rate, plus a margin that varies with Canfor and CPPI's debt to total capitalization ratios.

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

Canfor and CPPI's operating loan facilities have certain financial covenants, including maximum debt to total capitalization ratios. Vida is also subject to certain financial covenants, including minimum equity and interest coverage ratios. As at December 31, 2023, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their operating loan facilities. Substantially all borrowings of Vida and CPPI are non-recourse to other entities within the Company.

12. Term Debt

(millions of Canadian dollars)	As at December 31, 2023	As at December 31, 2022
Canfor (excluding Vida and CPPI)		
US\$50.0 million, floating interest, repayable on June 28, 2031	\$ 66.1	\$ 67.7
US\$66.7 million, fixed interest of 4.4%, repayable on in two equal tranches on October 2, 2024 and 2025 (US\$33.3 million repaid on October 3, 2023)	88.2	135.4
Other	5.1	5.2
Vida		
SEK 1.2 million, floating interest, repaid on April 30, 2023	-	0.1
SEK 1.1 million, floating interest, repaid on November 30, 2023	-	0.1
AUD\$3.7 million, floating interest, repayable between April 23, 2024 and May 31, 2028	0.5	0.4
CPPI		
CAD\$50.0 million, floating interest, converted to an operating loan facility on May 2, 2023	-	50.0
Up to CAD\$80.0 million, floating interest, repayable on May 2, 2027	-	-
Term debt at end of period	\$ 159.9	\$ 258.9
Less: Current portion	(44.8)	(45.3)
Long-term portion	\$ 115.1	\$ 213.6

On May 2, 2023, CPPI secured a commitment to receive up to \$80.0 million of non-revolving term debt to support CPPI's continued re-investment in its facilities, restricted specifically to the Northwood Northern Bleached Softwood Kraft pulp mill's ("Northwood") recovery boiler number one ("RB1"). This new non-revolving term debt has a maturity date of May 2, 2027, with interest payable at floating interest rates consistent with CPPI's operating loan facility.

Canfor's and CPPI's term debt (excluding Vida) is unsecured. Vida's term debt is secured by its property, plant and equipment. Canfor's and CPPI's borrowings (excluding Vida) are subject to certain financial covenants, including a maximum debt to total capitalization ratio. Vida's borrowings are subject to certain financial covenants, including minimum equity and interest coverage ratios. As at December 31, 2023, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their term debt.

Fair value of total term debt

At December 31, 2023, the fair value of the Company's term debt is \$153.7 million (December 31, 2022 – \$241.7 million), determined based on prevailing market rates for term debt with similar characteristics and risk profile.

13. Employee Future Benefits

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

Total cash payments for employee future benefits for 2023 were \$59.4 million (December 31, 2022 – \$48.0 million), consisting of cash contributed by Canfor to its funded pension plans, cash payments directly to beneficiaries for its

unfunded other non-pension post-retirement benefit plans, and cash contributed to its defined contribution and other plans.

Defined benefit plans

Canfor measures its accrued retirement benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

As at December 31, 2023, Canfor has three registered defined benefit pension plans, as one of the Company's registered defined benefit plans was wound up effective March 31, 2023 (with final settlement and distribution of remaining benefits to occur in 2024). For the registered plans, actuarial funding valuations are performed at least once every three years. Actuarial valuations for funding purposes as at December 31, 2022 were completed in 2023 for the three plans. The next actuarial valuation for funding purposes is currently scheduled for December 31, 2025, to be completed in 2026. The majority of non-registered pension plans underwent actuarial valuations as at December 31, 2023, which were completed in 2024. One of the non-registered plans underwent an actuarial valuation as at December 31, 2022, which was completed in 2023. In addition, Canfor has other non-contributory benefit plans that provide certain non-pension post-retirement benefits to its members. The actuarial valuations for the non-pension post-retirement benefit plans were conducted as at December 31, 2023. Information about Canfor's defined benefit plans, in aggregate, is as follows:

Fair market value of plan assets	2023		2022	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
(millions of Canadian dollars)				
Beginning of year	\$ 282.2	\$ -	\$ 724.7	\$ -
Interest income on plan assets	13.1	-	21.1	-
Return on plan assets greater (less) than discount rate	10.5	-	(100.2)	-
Employer contributions	20.9	3.3	9.1	3.1
Employee contributions	0.3	-	0.3	-
Benefit payments	(17.2)	(3.3)	(65.3)	(3.1)
Settlement of buy-in annuity contracts	-	-	(308.2)	-
Administration costs	(1.7)	-	(1.0)	-
Other	-	-	1.7	-
End of year	\$ 308.1	\$ -	\$ 282.2	\$ -
Plan assets consist of the following:			As at December 31, 2023	As at December 31, 2022
Asset category			Percentage of Plan Assets	
Equity securities			44%	44%
Debt securities			55%	55%
Other			1%	1%
			100%	100%

Accrued benefit obligations	2023		2022	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
(millions of Canadian dollars)				
Beginning of year	\$ 356.7	\$ 68.4	\$ 817.0	\$ 83.4
Current service cost	4.2	0.8	7.0	1.1
Interest cost	16.6	3.0	23.7	2.4
Benefit payments	(17.2)	(3.3)	(65.3)	(3.1)
Employee contributions	0.3	-	0.3	-
Settlement of buy-in annuity contracts	-	-	(308.2)	-
Actuarial loss (gain)	2.8	(7.3)	(136.6)	(15.8)
Change in plan surplus	(8.0)	-	15.0	-
Settlement loss and other	6.4	-	3.8	0.4
End of year	\$ 361.8	\$ 61.6	\$ 356.7	\$ 68.4

Of the defined benefit pension plan obligation of \$361.8 million (December 31, 2022 – \$356.7 million), \$297.3 million (December 31, 2022 – \$291.3 million) relates to the registered plans that are partially funded and \$64.5 million

(December 31, 2022 – \$65.4 million) relates to the supplemental plans that are unfunded, with letters of credit securing \$43.0 million (December 31, 2022 – \$58.7 million) of the unfunded liability.

The total obligation for the non-pension post-retirement benefit plans of \$61.6 million (December 31, 2022 – \$68.4 million) is unfunded.

Annuity contracts

On December 31, 2022, the Company entered into contracts to convert all of its existing buy-in annuities to buy-out annuities. As a result of these contracts, the Company's buy-in annuity assets and corresponding accrued benefit obligation of \$308.2 million were derecognized from the Company's consolidated balance sheet as at December 31, 2022. No annuity contracts were held by the Company as at December 31, 2023.

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

Reconciliation of funded status of defined benefit plans to amounts recorded in the consolidated financial statements

(millions of Canadian dollars)	December 31, 2023		December 31, 2022	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
Fair market value of plan assets	\$ 308.1	\$ -	\$ 282.2	\$ -
Accrued benefit obligations	(361.8)	(61.6)	(356.7)	(68.4)
Funded status of plans – deficit	\$ (53.7)	\$ (61.6)	\$ (74.5)	\$ (68.4)
Other pension plans	(6.8)	-	(5.8)	-
Total accrued benefit liability, net	\$ (60.5)	\$ (61.6)	\$ (80.3)	\$ (68.4)

The net accrued benefit liability is included in Canfor's consolidated balance sheet as follows:

(millions of Canadian dollars)	December 31, 2023		December 31, 2022	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
Retirement benefit surplus	\$ 10.8	\$ -	\$ 9.6	\$ -
Retirement benefit obligations	(71.3)	(61.6)	(89.9)	(68.4)
Total accrued benefit liability, net	\$ (60.5)	\$ (61.6)	\$ (80.3)	\$ (68.4)

Of the net defined benefit pension plan obligation of \$60.5 million, \$43.0 million (December 31, 2022 – \$58.7 million) is secured by letters of credit.

At December 31, 2023 and December 31, 2022, certain defined benefit pension plans are in a surplus position reflecting the return on plan assets, actuarial gains and employer contributions to the pension plans during 2023 and 2022. The plans with a net retirement surplus have been classified as non-current assets and included in 'Long-term investments and other' on the balance sheet (Note 9).

Components of pension cost

The following table shows the before tax impact on net income (loss) and other comprehensive income (loss) of the Company's defined benefit pension and other non-pension post-retirement benefit plans:

(millions of Canadian dollars)	2023		2022	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
Recognized in net income (loss)				
Current service cost	\$ 4.2	\$ 0.8	\$ 7.0	\$ 1.1
Administration cost	1.1	-	0.9	-
Interest cost	3.5	3.0	2.6	2.4
Settlement loss	3.5	-	-	-
Other	2.9	-	1.7	0.4
Total expense included in net income (loss)	\$ 15.2	\$ 3.8	\$ 12.2	\$ 3.9

(millions of Canadian dollars)	2023		2022	
	Defined Benefit Pension Plans	Other Benefit Plans	Defined Benefit Pension Plans	Other Benefit Plans
Recognized in other comprehensive income (loss)				
Actuarial gain – experience	\$ (0.1)	\$ (1.1)	\$ (1.2)	\$ (0.5)
Actuarial loss (gain) – financial assumptions	2.9	(6.2)	(135.4)	(15.3)
Return on plan assets less (greater) than discount rate	(10.5)	-	100.2	-
Change in plan surplus	(8.0)	-	15.0	-
Administrative costs greater than expected	0.6	-	0.4	-
Total gain in other comprehensive income (loss)	\$ (15.1)	\$ (7.3)	\$ (21.0)	\$ (15.8)

Effective March 31, 2023, the Company wound-up one of its registered defined benefit plans. Additional benefit costs and settlement expenses were recognized in net income (loss) in connection with the plan's final actuarial valuation, which lowered the minimum funding reserve required to be held by the plan by \$8.0 million in 2023 (2022 - \$15.0 million recognized in connection with the wind-up of another registered defined benefit plan and derecognition of the related surplus).

Significant assumptions

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

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

In addition to the significant assumptions listed in the table above, the average life expectancy of a 65-year-old at December 31, 2023 is between 21.4 years and 24.4 years (December 31, 2022 – 21.3 years and 24.4 years). As at December 31, 2023, the weighted average duration of the defined benefit plan obligation, which reflects the average age of the plan members, is 12.4 years (December 31, 2022 – 12.7 years). The weighted average duration of the other benefit plans is 11.2 years (December 31, 2022 – 10.7 years).

Sensitivity analysis

Assumed discount rates and medical cost trend rates have a significant effect on the accrued retirement benefit obligation and related plan assets. A one percentage point change in these assumptions would have the following effects on the accrued retirement benefit obligation for 2023:

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

With respect to the discount rate sensitivity effect on the defined benefit pension plan liabilities, it is noted that 41% (December 31, 2022 – 43%) is partially offset through the plan's investment in debt securities.

As at December 31, 2023, estimated contribution payments of \$8.3 million will be made to the Company's defined benefit pension plans in 2024 based on the last actuarial valuation for funding purposes.

Defined contribution and other plans

The total expense recognized in 2023 for Canfor's defined contribution plans was \$17.6 million (December 31, 2022 – \$16.6 million). Canfor contributes to various forest industry union benefit plans providing both pension and other retirement benefits. These plans are accounted for as defined contribution plans. Contributions to these plans, not included in the expense for defined contribution plans above, amounted to \$17.6 million in 2023 (December 31, 2022 – \$19.2 million).

14. Deferred Reforestation Obligations

The following table provides a reconciliation of the deferred reforestation obligations as at December 31, 2023 and December 31, 2022:

(millions of Canadian dollars)		2023		2022
Reforestation obligations at beginning of year	\$	104.2	\$	112.9
Expense for year		47.2		46.9
Accretion expense		1.6		0.6
Acquisition (Note 27)		-		11.8
Changes in estimates		2.6		(4.2)
Paid during the year, net		(55.6)		(63.8)
Reforestation obligations at end of year	\$	100.0	\$	104.2
Less: Current portion		(52.6)		(60.4)
Long-term portion	\$	47.4	\$	43.8

The total undiscounted amount of the estimated cash flows required to settle the obligations at December 31, 2023 is \$106.6 million (December 31, 2022 – \$110.3 million), with payments expected to occur over 15 years. Due to the general long-term nature of the liability, the most significant area of uncertainty in estimating the provision is the future costs that will be incurred. The estimated cash flows have been adjusted for inflation and discounted using risk-free rates ranging from 3.1% to 4.7% at December 31, 2023 (December 31, 2022 – 3.3% to 4.6%).

15. Asset Retirement Obligations

The following table provides a reconciliation of the asset retirement obligations included in 'Other long-term provisions' on the consolidated balance sheet as at December 31, 2023 and December 31, 2022:

(millions of Canadian dollars)		2023		2022
Asset retirement obligations at beginning of year	\$	12.2	\$	12.9
Accretion expense		0.4		0.3
Cash payments		-		(1.0)
Changes in estimates		0.5		-
Asset retirement obligations at end of year	\$	13.1	\$	12.2

Canfor's asset retirement obligations (excluding CPPI) represent estimated undiscounted future payments of \$15.7 million (December 31, 2022 – \$11.2 million) to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur over periods ranging from 3 to 43 years and have been discounted at risk-free rates ranging from 3.0% to 3.7% (December 31, 2022 – 3.3% to 3.6%).

CPPI's asset retirement obligations include \$9.3 million (December 31, 2022 – \$9.3 million) of estimated undiscounted future payments to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur over periods ranging from 2 to 28 years and have been discounted at risk-free rates ranging from 3.0% to 3.9% (December 31, 2022 – 3.3% to 3.8%).

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

16. Share Capital

Authorized

10,000,000 preferred shares, with a par value of \$25 each.

1,000,000,000 common shares without par value.

Issued and fully paid

(millions of Canadian dollars, except number of shares)	2023		2022	
	Number of Shares	Amount	Number of Shares	Amount
Common shares at beginning of year	121,059,579	\$ 955.1	124,493,600	\$ 982.2
Common shares purchased	(2,127,800)	(16.8)	(3,434,021)	(27.1)
Common shares at end of year ³	118,931,779	\$ 938.3	121,059,579	\$ 955.1

³Based on trade date.

The holders of common shares are entitled to vote at all meetings of shareholders of the Company, except meetings at which only holders of preferred shares would be entitled to vote. The common shareholders are entitled to receive dividends as and when declared on the common shares.

Basic net income (loss) per common share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. The weighted average number of common shares outstanding for 2023 is 120,153,152 (December 31, 2022 – 123,198,290).

Normal course issuer bid

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

During the year ended December 31, 2023, the Company purchased 2,127,800 common shares for \$41.8 million (an average of \$19.64 per common share), with an additional \$2.5 million paid in relation to shares purchased in the prior year. During the year ended December 31, 2022, the Company purchased 3,434,021 common shares for \$81.4 million (an average of \$23.70 per common share), of which \$78.9 million was paid during the year.

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

17. Non-Controlling Interests

The following table summarizes the non-controlling financial information for the Company's lumber operations and CPPI before inter-company eliminations:

Summarized Balance Sheets:

Amounts presented below represent non-controlling %
(millions of Canadian dollars)

	As at December 31, 2023			As at December 31, 2022		
	Lumber ^{4,5}	CPPI	Total	Lumber ^{4,5}	CPPI	Total
Current assets	\$ 279.8	\$ 113.6	\$ 393.4	\$ 325.6	\$ 142.0	\$ 467.6
Non-current assets	118.7	191.6	310.3	119.0	199.4	318.4
Total assets	\$ 398.5	\$ 305.2	\$ 703.7	\$ 444.6	\$ 341.4	\$ 786.0
Current liabilities	\$ 80.8	\$ 120.7	\$ 201.5	\$ 90.7	\$ 75.0	\$ 165.7
Non-current liabilities	39.7	32.2	71.9	36.6	73.4	110.0
Total liabilities	\$ 120.5	\$ 152.9	\$ 273.4	\$ 127.3	\$ 148.4	\$ 275.7
Total equity	\$ 278.0	\$ 152.3	\$ 430.3	\$ 317.3	\$ 193.0	\$ 510.3
Total liabilities and equity	\$ 398.5	\$ 305.2	\$ 703.7	\$ 444.6	\$ 341.4	\$ 786.0

Summarized Statements of Income (Loss) and Other Comprehensive Income:

Amounts presented below represent non-controlling %
(millions of Canadian dollars)

	Year ended December 31, 2023			Year ended December 31, 2022		
	Lumber ⁴	CPPI	Total	Lumber ⁴	CPPI	Total
Sales	\$ 431.2	\$ 395.4	\$ 826.6	\$ 515.4	\$ 490.3	\$ 1,005.7
Net income (loss)	\$ 21.0	\$ (43.4)	\$ (22.4)	\$ 109.6	\$ (35.8)	\$ 73.8
Other comprehensive income	-	2.6	2.6	-	5.2	5.2
Total comprehensive income (loss)	\$ 21.0	\$ (40.8)	\$ (19.8)	\$ 109.6	\$ (30.6)	\$ 79.0
Dividends paid to non-controlling interests	\$ 62.3	\$ -	\$ 62.3	\$ 62.8	\$ -	\$ 62.8

Summarized Statements of Cash Flows:

Amounts presented below represent non-controlling %
(millions of Canadian dollars)

	Year ended December 31, 2023			Year ended December 31, 2022		
	Lumber ⁴	CPPI	Total	Lumber ⁴	CPPI	Total
Cash flows from operating activities	\$ 38.6	\$ 16.4	\$ 55.0	\$ 147.8	\$ 20.5	\$ 168.3
Cash flows from (used in) in financing activities	\$ (65.0)	\$ 13.5	\$ (51.5)	\$ (20.5)	\$ 3.7	\$ (16.8)
Cash flows used in investing activities	\$ (11.5)	\$ (27.0)	\$ (38.5)	\$ (11.8)	\$ (50.7)	\$ (62.5)

⁴ Lumber non-controlling interest includes non-controlling interest related to Vida (30%), Houston Pellet Limited Partnership (40%), CSP Moultrie Investment, LLC (5%) for the year ended December 31, 2023.

⁵ Lumber total equity includes a \$28.9 million foreign exchange loss arising from the translation of foreign operations, recognized in 'Accumulated other comprehensive income' on the consolidated balance sheet (December 31, 2022 – \$31.0 million foreign exchange loss).

18. Finance Income, Net

(millions of Canadian dollars)	2023	2022
Interest expense on borrowings	\$ (32.6)	\$ (22.3)
Interest expense on retirement benefit obligations, net (Note 13)	(6.5)	(5.0)
Interest income from duty deposits recoverable, net (Note 28)	19.7	13.4
Interest income	32.4	16.0
Other finance expenses	(2.6)	(1.1)
Finance income, net	\$ 10.4	\$ 1.0

19. Asset Write-Downs, Impairments, and Restructuring Costs

In January 2023, the Company announced the decision to permanently close the Chetwynd sawmill and pellet plant and temporarily close its Houston sawmill. Also in January 2023, CPPI announced the decision to permanently close the pulp line at its Prince George Pulp and Paper mill. In connection with these closures, the Company recognized restructuring costs of \$15.4 million for the year ended December 31, 2023 (2022 – \$7.9 million related to the curtailment of CPPI's Taylor Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") mill).

For the lumber segment, no indications of impairment were identified in 2023. As a result, an impairment test was not performed as of December 31, 2023 (2022 – asset write-down and impairment charge of \$89.0 million for the lumber segment).

For the pulp and paper segment, as a result of continued uncertainty surrounding fibre availability for CPPI's pulp mills, CPPI performed an impairment test as of December 31, 2023, 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 included future production volume, commodity prices, fibre and production costs, as well as the discount rate. Other assumptions included applicable foreign exchange rates, operating rates of the assets, and the future capital required to maintain the current operating condition of assets. Estimated future cash flows were discounted at a rate of 9% (12% before tax), based on CPPI's weighted average cost of capital for 2023 (unchanged from 2022).

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

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

20. Income Taxes

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

(millions of Canadian dollars)	2023	2022
Current	\$ 64.5	\$ (200.2)
Deferred	77.0	(47.2)
Income tax recovery (expense)	\$ 141.5	\$ (247.4)

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

(millions of Canadian dollars)	2023	2022
Income tax recovery (expense) at statutory rate of 27.0% (2022 – 27.0%)	\$ 132.3	\$ (299.3)
Add (deduct):		
Non-taxable income (loss) related to non-controlling interests	(1.1)	0.3
Entities with different income tax rates and other tax adjustments	9.7	53.5
Permanent difference from capital gains and losses and other non-deductible items	0.6	(1.9)
Income tax recovery (expense)	\$ 141.5	\$ (247.4)

In addition to the amounts recorded to net income, a tax expense of \$6.0 million was recorded to other comprehensive income (loss) in relation to actuarial gains, net, on the defined benefit plans for the year ended December 31, 2023 (December 31, 2022 – \$9.9 million).

CPPI has non-capital loss carry-forwards of approximately \$186.3 million (2022 - \$53.5 million) in Canada which expire between 2042 and 2043.

The tax effects of the significant components of temporary differences that give rise to deferred income tax assets and liabilities are as follows:

(millions of Canadian dollars)	As at December 31, 2023	As at December 31, 2022
Deferred income tax assets		
Accruals not currently deductible	\$ 46.4	\$ 48.4
Loss carryforwards	87.0	47.5
Retirement benefit obligations	32.5	40.5
Lease obligations	31.6	28.0
Other	10.5	12.0
	\$ 208.0	\$ 176.4
Deferred income tax liabilities		
Depreciable capital assets	\$ (330.7)	\$ (361.0)
Goodwill and other intangible assets, net	(7.1)	(1.7)
Untaxed reserves	(77.3)	(71.6)
Duty deposits recoverable, net	(76.7)	(100.7)
Right-of-use assets	(30.2)	(25.8)
Other	(6.6)	(7.5)
	\$ (528.6)	\$ (568.3)
Total deferred income tax liabilities, net	\$ (320.6)	\$ (391.9)
Less: Entities in a net deferred income tax asset position	9.4	1.0
Net deferred income tax liabilities	\$ (330.0)	\$ (392.9)

21. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)	2023	2022
Accounts receivable	\$ 23.1	\$ 100.9
Inventories	175.2	88.2
Prepaid expenses and other	9.9	(11.0)
Accounts payable and accrued liabilities, and current portion of deferred reforestation obligations	(45.4)	(91.4)
Net change in non-cash working capital	\$ 162.8	\$ 86.7

22. Related Party Transactions

Canfor 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 53.6% at December 31, 2023 (December 31, 2022 – 52.6%). During 2023, subsidiaries owned by The Jim Pattison Group provided lease, insurance, and other services to Canfor totaling \$6.6 million (December 31, 2022 – \$4.9 million).

During 2023, CPPI sold paper to subsidiaries owned by The Jim Pattison Group totaling \$4.5 million (December 31, 2022 – \$3.4 million). CPPI also made purchases from subsidiaries owned by The Jim Pattison Group totaling \$0.7 million (December 31, 2022 – \$0.5 million).

At December 31, 2023, an outstanding balance of \$0.2 million was owed to subsidiaries owned by The Jim Pattison Group (December 31, 2022 – receivable of \$0.1 million).

Key management personnel

Key management includes members of the Board of Directors and the senior executive management team. The compensation expense for key management for services is as follows:

(millions of Canadian dollars)	2023	2022
Short-term benefits	\$ 12.7	\$ 13.4
Post-employment benefits	1.4	0.9
	\$ 14.1	\$ 14.3

Short-term benefits for members of the Board of Directors include an annual retainer.

23. Segment Information

Canfor has two reportable segments, as described below, which offer different products and are managed separately because they require different production processes and marketing strategies. The following summary describes the operations of each of the Company's reportable segments:

- *Lumber* – Includes logging operations and manufacturing and sale of various grades, widths and lengths of lumber, engineered wood and other lumber-related products, wood chips and wood pellets; and
- *Pulp and Paper* – Includes purchase of residual fibre, and production and sale of pulp and paper products, including Northern Bleached Softwood Kraft ("NBSK") and BCTMP, as well as energy revenues. This segment includes 100% of CPPI.

Sales between segments are accounted for at prices that approximate fair value. These include sales of residual fibre from the lumber segment to the pulp and paper segment for use in the pulp production process. Information regarding the operations of each reportable segment is included in the table below. The accounting policies of the reportable segments are described in Note 3. The Company's interest-bearing liabilities are not considered to be segment liabilities, but rather are managed centrally by the treasury function. Other liabilities are not split by segment for the purposes of allocating resources and assessing performance.

(millions of Canadian dollars)	Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment	Consolidated
Year ended December 31, 2023					
Sales from contracts with customers	\$ 4,551.1	\$ 875.5	\$ -	\$ -	\$ 5,426.6
Sales to other segments	153.1	-	-	(153.1)	-
Operating loss	(348.7)	(127.5)	(55.4)	-	(531.6)
Amortization	332.7	85.0	2.7	-	420.4
Capital expenditures⁶	510.4	60.5	16.1	-	587.0
Total assets	4,270.9	654.0	1,206.5	-	6,131.4
Year ended December 31, 2022					
Sales from contracts with customers	\$ 6,341.3	\$ 1,085.4	\$ -	\$ -	\$ 7,426.7
Sales to other segments	140.1	0.2	-	(140.3)	-
Operating income (loss)	1,237.2	(106.0)	(57.1)	-	1,074.1
Amortization	297.7	97.8	1.7	-	397.2
Capital expenditures ⁶	507.7	112.6	5.0	-	625.3
Total assets	4,226.9	738.5	1,773.8	-	6,739.2

⁶ Capital expenditures represent cash paid for capital assets during the periods, excluding assets purchased as part of acquisitions (Note 27). Pulp & Paper includes capital expenditures by CPPI that were partially financed by government grants.

Geographic information

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

(millions of Canadian dollars)	2023		2022	
Sales by location of customer				
Canada	12%	\$ 637.4	11%	\$ 823.2
United States	52%	2,799.0	55%	4,062.4
Europe	19%	1,051.1	17%	1,264.5
Asia	15%	806.8	15%	1,122.5
Other	2%	132.3	2%	154.1
	100%	\$ 5,426.6	100%	\$ 7,426.7

(millions of Canadian dollars)	As at December 31, 2023		As at December 31, 2022	
Property, plant and equipment, ROU assets, timber licenses, goodwill and other intangible assets by location				
Canada	41%	\$ 1,417.5	46%	\$ 1,455.7
United States	43%	1,447.5	37%	1,197.5
Europe	16%	553.9	17%	554.5
Asia and Other	0%	0.1	0%	0.4
	100%	\$ 3,419.0	100%	\$ 3,208.1

24. Commitments and Contingencies

In the ordinary course of its business activities, the Company may be subject to, or enter into, legal actions and claims with customers, unions, suppliers or others.

In circumstances where the Company is not able to determine the outcome of a legal action and claim, no amount is recognized in the consolidated financial statements, with an amount accrued only when a reliable estimate of the obligation can be made. Although there can be no assurance as to the disposition of a legal action and claim, it is the opinion of Management, based upon the information available at this time, that the expected outcome of a legal action and claim, individually or in aggregate, is unlikely to have a material adverse effect on the operating results and financial condition of the Company as a whole.

Commitments

At December 31, 2023, Canfor had contractual obligations of \$363.0 million (December 31, 2022 – \$215.7 million) reflecting commitments for the construction of capital assets (including commitments related to the construction of the new Axis sawmill in southern Alabama), and other working capital items. The majority of these commitments are expected to be settled within two years. In addition, the Company has committed to leases of property, plant and equipment as outlined under Note 6.

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

25. Risks and Uncertainties

Financial risk management

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.

Credit risk:

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

Financial instruments that are subject to credit risk include cash and cash equivalents, trade and other accounts receivable, and certain investments and advances. Contract assets are also subject to credit risk. Cash and cash equivalents include cash held through major Canadian and international financial institutions as well as temporary investments that are readily convertible into known amounts of cash within three months or less from the date of acquisition. The cash and cash equivalents balance at December 31, 2023 is \$627.4 million (December 31, 2022 – \$1,268.7 million).

Canfor utilizes credit insurance to mitigate the risk associated with some of its trade accounts receivables. As at December 31, 2023, approximately 64% (December 31, 2022 – 64%) of the outstanding trade accounts receivables are covered by credit insurance. Canfor's trade accounts receivable balance at December 31, 2023 is \$302.2 million, before a loss allowance of \$4.3 million (December 31, 2022 – \$340.3 million, before a loss allowance of \$4.3 million).

At December 31, 2023, approximately 94% (December 31, 2022 – 96%) of the trade accounts receivable balance is within Canfor's established credit terms.

Liquidity risk:

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

At December 31, 2023, Canfor had \$110.6 million drawn on its operating loans and facilities (December 31, 2022 – \$27.8 million) and \$63.5 million reserved for several standby letters of credit (December 31, 2022 – \$81.9 million), leaving \$1,140.5 million available and undrawn (December 31, 2022 – \$1,158.7 million). As a result, including cash and cash equivalents of \$627.4 million (December 31, 2022 – \$1,268.7 million) and CPPI's \$80.0 million non-revolving term debt, which is restricted for use on the continued re-investment in its facilities, specifically Northwood's RB1, at December 31, 2023, Canfor had available liquidity of \$1,847.9 million (December 31, 2022 – \$2,427.4 million). The Company also had accounts payable and accrued liabilities of \$664.5 million (December 31, 2022 – \$678.7 million) and term debt of \$159.9 million (December 31, 2022 – \$258.9 million) as at December 31, 2023.

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, 2023 and December 31, 2022, the Company had no interest rate swaps outstanding.

(ii) *Currency risk:*

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

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

A portion of the currency risk associated with US-dollar denominated sales is naturally offset by US-dollar denominated expenses. A portion of the remaining exposure is sometimes reduced by foreign exchange collar contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US-dollars. At December 31, 2023 and December 31, 2022, the Company had no foreign exchange collar contracts outstanding.

Although Vida primarily transacts in SEK, the Company also sells certain products in US-dollars, British Pounds ("GBP"), AUD and Euros ("EUR"), and Norwegian krone ("NOK") and holds US, GBP, AUD and EUR denominated operating loan and term debt facilities (Notes 11 and 12) and limits its exposure to foreign exchange risk using forward foreign exchange contracts and foreign exchange options. At December 31, 2023 and December 31, 2022, the following forward foreign exchange contracts were outstanding:

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

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)
<i>0-6 months</i>	GBP	£48.0	12.41
<i>0-12 months</i>	USD	\$108.0	10.57
<i>0-6 months</i>	EUR	€15.0	10.83

(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.

Canfor had the following lumber futures contracts at December 31, 2023 and December 31, 2022:

Maturity Date	As at December 31, 2023		As at December 31, 2022	
	Notional Amount	Average Rate	Notional Amount	Average Rate
Lumber Futures Contracts	(MMfbm)	(US-dollars per Mfbm)	(MMfbm)	(US-dollars per Mfbm)
Future sales contracts <i>0-6 months</i>	19.3	\$565.2	5.2	\$425.4

(iv) *Energy price risk:*

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

The annual exposure is, from time to time, hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of eighteen months. At December 31, 2023 and December 31, 2022, the Company had no energy fixed swaps or option contracts outstanding.

Capital management

Canfor's objectives when managing capital are to maintain a strong balance sheet and a globally competitive cost structure that ensures adequate liquidity to maintain and develop the business throughout the commodity price cycle.

Canfor's capital is comprised of net cash and total equity:

(millions of Canadian dollars)	As at December 31, 2023	As at December 31, 2022
Total debt (including operating loans)	\$ 270.5	\$ 286.7
Less: cash and cash equivalents	(627.4)	(1,268.7)
Net cash	(356.9)	(982.0)
Total equity	4,277.4	4,762.8
	\$ 3,920.5	\$ 3,780.8

The Company has certain financial covenants on its debt obligations, including a maximum debt to total capitalization ratio that is calculated by dividing total debt by total 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. Canfor's strategy is to ensure it remains in compliance with all of its existing debt covenants, so as to ensure continuous access to capital. Canfor was fully in compliance with all its debt covenants for the years ended December 31, 2023 and December 31, 2022.

The Company manages its capital structure through rigorous planning, budgeting and forecasting processes, and ongoing management of operations, investments and capital expenditures. In 2023, the Company's management of capital primarily comprised of strategic capital investments, maintenance of business capital, and working capital initiatives. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26. Financial Instruments

Canfor's cash and cash equivalents, trade and other accounts receivable, certain long-term investments and advances, accounts payable and accrued liabilities, other liabilities, operating loans, and term debt are classified as measured at amortized cost in accordance with IFRS 9 *Financial Instruments*. The carrying amounts of these instruments, excluding term debt, approximate fair value at December 31, 2023 and December 31, 2022.

Derivative instruments, investments in debt and equity securities (excluding associates accounted for under the equity method) and net duty deposits recoverable are classified as measured at FVTPL. The put liability is measured initially at fair value and subsequently at FVTEQ. IFRS 13 *Fair Value Measurement*, requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability, directly or indirectly;
- Level 3 – Inputs that are not based on observable market data.

There were no transfers between fair value hierarchy levels in 2023 or 2022.

The following table summarizes Canfor's financial instruments measured at fair value at December 31, 2023 and December 31, 2022, and shows the level within the fair value hierarchy in which they have been classified:

(millions of Canadian dollars)	Fair Value Hierarchy Level	As at December 31, 2023	As at December 31, 2022
Financial assets measured at fair value			
Investments	Level 1	\$ 89.1	\$ 31.7
Derivative financial instruments	Level 2	4.4	2.0
Duty deposits recoverable, net (Notes 9 and 28)	Level 3	289.5	372.9
		\$ 383.0	\$ 406.6
Financial liabilities measured at fair value			
Put liability	Level 3	187.7	172.7
		\$ 187.7	\$ 172.7

During the year ended December 31, 2023, the Company purchased investments in certain funds at a cost of \$59.4 million (2022 – nil). These highly liquid investments, with maturities exceeding one year, were subsequently measured at fair value through net income (loss) and classified as level 1. These investments are included within 'Long-Term Investments and Other' on the Company's consolidated balance sheet (Note 9).

The Company uses a variety of derivative financial instruments from time to time to reduce its exposure to risks associated with fluctuations in foreign exchange rates, lumber prices, energy prices, and floating interest rates on term debt.

At December 31, 2023, the fair value of derivative financial instruments includes an asset of \$4.4 million, which is included in 'Accounts receivable – Other' on the Company's consolidated balance sheet (December 31, 2022 – \$2.0 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

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

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

At December 31, 2023, the fair value of duty deposits recoverable is a net asset of \$289.5 million, recognized on the Company's consolidated balance sheet in 'Long-term investments and other' (Note 9) and adjusted to fair value through the recognition of interest in 'Finance income, net' on the consolidated statement of income (loss) (Note 18).

During the year ended December 31, 2023, a loss of \$12.1 million was recognized in 'Other equity' on the Company's consolidated balance sheet following remeasurement of the put liability (December 31, 2022 – loss of \$26.8 million). As a result of this remeasurement, combined with a foreign exchange loss of \$2.9 million for the year ended December 31, 2023 (December 31, 2022 – gain of \$10.3 million), the balance of the put liability was \$187.7 million at December 31, 2023 (December 31, 2022 – \$172.7 million).

27. Millar Western Acquisition

On March 1, 2022, Canfor completed the acquisition of Millar Western's solid wood operations and associated forest tenure for total consideration of \$434.0 million, including \$99.0 million in net working capital. Millar Western's solid wood operations, located in Alberta, Canada, consist of two sawmills and one high-value specialty facility and have an annual production capacity of 630 million board feet. The transaction was accounted for as a business combination under IFRS 3 *Business Combinations* ("IFRS 3") and is included in Canfor's lumber segment.

The following table summarizes the final recognized amounts of net assets acquired by Canfor at the acquisition date:

(millions of Canadian dollars)

Property, plant and equipment (Note 5)	\$	236.7
Timber licenses (Note 7)		83.7
Non-cash working capital, net (including inventory)		99.0
Goodwill (Note 8)		26.4
Deferred reforestation obligations (Note 14)		(11.8)
Total net assets	\$	434.0

The significant assumptions included replacement cost estimates of the acquisition date fair values of acquired property, plant and equipment and physical depreciation assumptions. The Company leveraged insurance appraisals to estimate the replacement cost of the assets.

The fair value of timber licenses acquired was determined by leveraging a market comparison technique based on precedent tenure transactions in Alberta.

The fair value of inventory was determined by Canfor applying a market comparison technique, determined based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Goodwill of \$26.4 million was recognized as part of the purchase, calculated as the excess of the aggregate consideration transferred over the fair value of the net assets acquired. The goodwill arising from the acquisition was attributable to expected future income and cash-flow projections, access to new customers and markets, and the ability to further diversify Canfor's product offering.

The Company incurred acquisition-related costs of \$4.1 million, primarily related to external legal fees and due diligence costs, which have been included in 'Selling and administration costs' in the consolidated statement of income when incurred.

28. Countervailing and Anti-Dumping Duties

In 2016, a petition was filed by the US Lumber Coalition to the US Department of Commerce ("DOC") and the US International Trade Commission ("ITC") alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers. Canfor was selected by the DOC as a "mandatory respondent" to the countervailing and anti-dumping investigations and is subject to company specific CVD and ADD rates. As a result of the DOC's investigation, CVD and ADD were imposed on the Company's Canadian lumber exports to the United States beginning in 2017. As at December 31, 2023, Canfor has paid cumulative cash deposits of \$931.0 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 Canada-United States-Mexico ("CUSMA") Agreement and through the World Trade Organization, where Canadian litigation has proven successful in the past. In October 2023, a CUSMA dispute panel ruled that certain elements of the DOC's calculation of softwood lumber duties were inconsistent with US law. The panel directed the DOC to revisit key elements of its duty calculations. Most recently, in January 2024, Canada filed a notice of intent to challenge the US ITC's decision to maintain duties on Canadian softwood lumber products under Chapter 10 of the CUSMA Agreement. The results of this dispute could potentially result in adjustments to Canfor's prescribed duties and therefore its consolidated statement of income (loss).

Fourth Period of Review ("POR4")

In January 2023, the DOC announced the preliminary results for POR4 which is based on sales and cost data for 2021, and in July 2023, finalized the rates. The Company's final CVD rate was determined to be 1.36% (versus a cash deposit rate of 2.63% from January to November 2021 and 2.42% for December 2021) while the final ADD rate was 5.25% (versus a cash deposit rate of 1.99% from January to November 2021 and 17.12% for December 2021, and an estimated accrual rate of 7.00%). In July 2023, upon finalization of these POR4 rates, a recovery of \$43.3 million (US\$34.7 million) was recognized in the company's consolidated statement of income (loss) in the third quarter of 2023, with a corresponding receivable included in 'Long Term Investments and Other' on the Company's consolidated balance sheet reflecting the difference between the combined accrual rate between January and November of 9.63% and 9.42% for December 2021 and the final combined DOC rate for POR4 of 6.61%.

Also in July 2023, the Company's combined cash deposit rate of 5.87% was reset to the final rate of 6.61% as determined in POR4. This new cash deposit rate will apply to the Company's Canadian lumber shipments destined to the United States until completion of the administrative review for the fifth period of review (anticipated in the third quarter of 2024). Despite the reduced rates for POR4, 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.

Fifth Period of Review ("POR5")

On January 1, 2022, the Company moved into POR5, which was based on sales and cost data for 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%.

Subsequent to year end, in February 2024, the DOC announced the preliminary rates for POR5, which indicated the Company's preliminary CVD rate at 6.14% and ADD rate at 9.65%, resulting in a preliminary combined rate of 15.79% for 2022. Upon finalization of these rates (anticipated in the third quarter of 2024), an expense, estimated at \$58.8M (US\$42.2 million), will be recognized in the Company's consolidated financial statements to reflect the difference between the combined accrual rate of 11.42% between January and July 2022 and 9.95% for August to December 2022, and the DOC rates for POR5. In addition, once final, the Company's current combined cash deposit rate of 6.61% will be reset to the DOC rates for POR5 (currently estimated to be 15.79% based on the preliminary determination).

Sixth Period of Review ("POR6")

On January 1, 2023, the Company moved into POR6, which is based on sales and cost data in 2023. Consistent with prior periods of review, the Company continues to be 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 0.95% from January to July 2023 and 1.36% thereafter, while ADD was expensed at an estimated accrual rate of 35.00%.

Despite cash deposits being made in 2022 and 2023 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 for these periods.

Summary

A summary of the various combined rates is as follows:

Time Period	Deposit Rate	Accrued Rate	DOC Rate	Description
April 2017 – December 2018	20.52%	15.84%	4.62%	First Period of Review ("POR1")
January 2019 – December 2019	20.52%	29.24%	19.54%	Second Period of Review ("POR2")
January 2020 – November 2020	20.52%	18.24%	5.87%	Third Period of Review ("POR3")
December 2020	4.62%	7.63%	5.87%	POR3
January 2021 – November 2021	4.62%	9.63%	6.61%	POR4
December 2021	19.54%	9.42%	6.61%	POR4
January 2022 – July 2022	19.54%	11.42%	15.79% ⁷	POR5
August 2022 – December 2022	5.87%	9.95%	15.79% ⁷	POR5
January 2023 – July 2023	5.87%	35.95%	Anticipated in 2025	POR6
August 2023 – thereafter	6.61%	36.36%	Anticipated in 2025	POR6

⁷ Reflects preliminary rates. Final rates are anticipated in the third quarter of 2024.

For accounting purposes, a net duty recoverable of \$289.5 million is included on the Company's consolidated balance sheet (Note 9) as at December 31, 2023 (December 31, 2022 – \$372.9 million) reflecting differences between the cash deposit rates and the Company's combined accrual rates for each period of review, including interest of \$60.8 million (December 31, 2022 - \$40.8 million).

For the year ended December 31, 2023, the Company recorded a net duty expense of \$143.8 million (2022 – net duty expense of \$49.1 million), comprised of the following:

(millions of Canadian dollars)	2023
Cash deposits paid	\$ 43.1
Duty expense attributable to POR6 – combined CVD and ADD ⁸	144.0
Duty recovery attributable to POR4 – combined CVD and ADD ⁹	(43.3)
Duty expense, net	\$ 143.8

⁸ Reflects Canfor's combined accrual rate (35.95% from January to July 2023 and 36.36% thereafter) compared to the DOC's deposit rate (5.87% from January to July 2023 and 6.61% thereafter) for POR6.

⁹ Reflects Canfor's combined accrual rate (9.63% from January to November 2021 and 9.42% for December 2021) compared to the DOC's final combined rate (6.61% for the entirety of 2021) for POR4.

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

29. Subsequent Events

In February 2024, CPPI entered into an asset purchase agreement to sell its Taylor BCTMP mill site for total proceeds of \$7.0 million. The transaction is anticipated to close during the first quarter of 2024.

On March 1, 2024, CPPI received insurance proceeds of \$15.0 million related to operational downtime experienced at Northwood in recent years that will be recognized in 'Other income, net' on the Company's consolidated statement of income (loss) during the first quarter of 2024.