2020

MANAGEMENT'S DISCUSSION & ANALYSIS

CANFOR CORPORATION

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This Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the year ended December 31, 2020 relative to the year ended December 31, 2019, and the financial position of the Company at December 31, 2020. It should be read in conjunction with Canfor's Annual Information Form and its audited consolidated financial statements and accompanying notes for the years ended December 31, 2020 and 2019 (available at www.canfor.com). The financial information contained in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income before Amortization and Adjusted Operating Income (Loss) which Canfor considers to be a relevant indicator for measuring trends in the performance of each of its operating segments and the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. Reference is also made to Adjusted Shareholder Net Income (Loss) (calculated as Shareholder Net Income (Loss) less specific items affecting comparability with prior periods – for the full calculation, see reconciliation included in the section "Overview of Consolidated Results – 2020 Compared to 2019") and Adjusted Shareholder Net Income (Loss) per Share (calculated as Adjusted Shareholder Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income before Amortization, Adjusted Operating Income (Loss), Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share are not generally accepted earnings measures under IFRS and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, Canfor's Operating Income before Amortization, Adjusted Operating Income (Loss), Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income before Amortization to Operating Income (Loss) and Adjusted Shareholder Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in this MD&A.

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

All financial references are in millions of Canadian dollars unless otherwise noted. Certain comparative amounts have been reclassified to conform to current presentation. The information in this report is as at February 24, 2021.

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

2020 HIGHLIGHTS

2020 was an exceptional yet volatile year for Canfor. The unprecedented challenges stemming from the coronavirus outbreak ("COVID-19") weighed heavily on results in the first half of 2020. However, through the second half of 2020 there were several positive developments, including an unexpected increase in demand and record global pricing. This, coupled with a solid operating performance, resulted in record-high operating income of $727.3 million and net income per share of $4.35 for the year overall. These results compared to an operating loss of $294.3 million and net loss per share of $2.10 in 2019.

The gradually improving North American lumber fundamentals and favourable macroeconomic conditions at the end of 2019 came to an abrupt halt late in the first quarter of 2020 as the COVID-19 pandemic spread globally. The resulting decline in global demand and construction activity across the United States ("US") led to the announcement of widespread curtailments across the lumber industry, including extensive downtime across all three of the Company's operating regions, particularly in April and May 2020, resulting in a material reduction in global inventories. As the second quarter of 2020 progressed, with many people spending more time in their homes during the pandemic, there was a surge in demand, initially led by the repair and remodeling sector, reflecting higher disposable income and improved home equity positions. This was quickly followed by a sharp increase in demand for new home construction, particularly single family homes, fueled by record low mortgage rates and a material improvement in housing affordability, as well as the move by many from urban dwellings to single family homes in more suburban areas. This spike in demand, coupled with lean inventories in the supply chain, was accompanied by an unprecedented rise in Western Spruce/Pine/Fir ("SPF") and Southern Yellow Pine ("SYP") benchmark lumber prices to record-high levels in the third quarter of 2020. As supply constraints slowly alleviated, lumber prices reversed sharply early in the fourth quarter of 2020 only to bounce back again in December, supported by unseasonably strong demand, approaching the record levels seen in the prior quarter.

In Canada, solid demand from 2019 continued into 2020; however, the onset of COVID-19 induced a slowdown in housing activity in the key building months of March through May, before returning to more normal levels in June 2020. Through the second half of 2020 Canadian lumber demand significantly increased, following similar trends to the US, with a surge in repair and remodel activity and single-family home construction, particularly in the Eastern provinces.

In contrast to North American markets, Asian offshore lumber demand was relatively flat throughout most of 2020, particularly in China, with improved demand in the back half of the year met by an increase in supply from Europe and Russia. Japan experienced slightly lower demand year-over-year, particularly highlighted in the third quarter of 2020, largely as a result of COVID-19 related impacts on the economy, before modestly improving in the fourth quarter of 2020.

European lumber demand was relatively stable moving into 2020; however, weakness early in the year, stemming largely from an increase in central European inventory levels coupled with COVID-19 impacts on construction, resulted in tepid demand through the first half of 2020. During the third quarter, continuing into the fourth quarter of 2020, demand in the region showed a marked recovery, surpassing pre-COVID-19 levels. This was driven largely by increased "do-it-yourself" demand, which tracked similar to North American trends.

Notwithstanding the significant market volatility experienced through 2020, average Western SPF and SYP benchmark lumber prices saw substantial year-over-year increases of 54% and 48%, respectively. The Western SPF 2x4 #2&Btr and SYP East 2x4 #2 price followed similar turbulent trends, declining to lows of US$282[1] per Mfbm and US$352 per Mfbm, respectively, in April 2020 in the midst of the pandemic and peaking at record-highs of US$955 per Mfbm for Western SPF in September 2020 and US$1,035 per Mfbm for SYP in October 2020. In early 2021, the SYP East 2x4 #2 continued its upward trajectory, setting a new all-time record of US$1,180 per Mfbm in February. In Europe, despite the significant strength seen in the repair and remodeling sector through the latter part of 2020, the European indicative SPF benchmark lumber price lagged somewhat behind North American benchmark pricing, reflecting the nature of European contract pricing (which is traditionally negotiated quarterly in advance), as well as weak demand early in the year as a result of COVID-19.

[1] Random Lengths Publications, Inc.

From an operational perspective, in response to the significant direct and indirect impacts of COVID-19 early in 2020, the Company implemented a series of measures focused on protecting the health and safety of its employees and contractors, their families and local communities.

In response to the sharp fall in global lumber demand and pricing, the Company was forced to take extensive capacity reductions during the second quarter of 2020 across all three sawmill operating regions, significantly impacting the majority of the Company's British Columbia ("BC") sawmills. Lumber production curtailments across the organization totaled approximately 370 million board feet. Reflecting the reduced lumber sawmill operating rates in the BC Interior and the associated material reduction in residual fibre supply, Canfor Pulp Products Inc. ("CPPI") took material production downtime spanning the second and third quarters of 2020 at its three Northern Bleached Softwood Kraft ("NBSK") pulp mills in the Prince George ("PG") region, reducing pulp production by approximately 73,000 tonnes.

Despite the turbulence of 2020, the Company continued to execute on its global diversification strategy, with the Vida Group's ("Vida") recent acquisition of Bergs Timber Production AB ("Bergs") sawmill assets in September 2020, combined with the second phase of the Elliott Sawmilling Co., LLC ("Elliott") acquisition in May 2020. Production volumes at the Company's SYP operations also increased in 2020, following the substantial completion of the previously announced US$125 million organic growth program.

In 2020, the Company continued to pay cash deposits on Canadian lumber exports destined to the US as a result of the imposition of countervailing ("CVD") and anti-dumping duties ("ADD") by the US Department of Commerce ("DOC") in the latter half 2017. As of December 31, 2020, the Company had posted cumulative cash deposits of $594.0 million.

Cash deposits for most of 2020, were made at rates determined by the DOC in 2017, and in November 2020, the Company's cash deposit rate was reset to a combined rate of 4.62%, reflecting the DOC's announced final results for the first period of review ("POR1").

For the Company, the difference between the combined cash deposit rate of 20.52% and the DOC's final combined rate of 4.62% for POR1 was $214.2 million (US$165.0 million). After deducting the recovery previously recognized for accounting purposes for POR1 (accrual rate of 15.84%, comprised of the CVD cash deposit rate of 13.24% and estimated ADD accrual rate of 2.6%), an additional recovery of $140.5 million (US$106.6 million) was recognized by the Company in the fourth quarter of 2020. Further discussion on CVD and ADD is provided in the "Softwood Lumber Agreement" section of this document.

Reflecting the aforementioned key factors, the Company reported record-high operating income of $816.0 million for its lumber segment in 2020, compared to an operating loss $227.4 million for 2019, reflecting substantial increases in results in all three operating regions.

Global pulp market fundamentals were very challenging through most of 2020 as the direct and indirect effects of COVID-19 weighed on the pulp and paper industry. Following a modest rebound in Asian pulp markets early in the year, global pulp markets weakened early in the second quarter of 2020 reflecting the spread of COVID-19 globally, and remained depressed until the fourth quarter of 2020. The structural decline in the printing and writing segment experienced in prior years was accelerated with the onset of the pandemic, while solid demand for at-home tissue products helped to partially offset this weakness. Global pulp inventory levels remained well-elevated throughout most of 2020, with a peak of 46 days of supply mid-year.

Prices to China, the world's largest consumer of softwood pulp, stayed within a narrow range for most of 2020. For the 2020 year as a whole, NBSK pulp list prices to China averaged US$588[2] per tonne, a decrease of US$24 per tonne, or 4%, from 2019, while North American NBSK pulp list prices averaged US$1,139[2] per tonne for 2020, down US$100 per tonne, or 8% from 2019 (before taking account of customer discounts, which were broadly unchanged year-over-year). Bleached Chemi-Thermo Mechanical Pulp ("BCTMP") prices were relatively stable throughout 2020, with US-dollar prices to China falling US$3 per tonne, or 1%, year-over-year.

[2] Resource Information Systems, Inc.

Operating losses in the pulp and paper segment were $56.1 million in 2020, compared to operating losses of $31.0 million in the previous year, for the most part reflecting the aforementioned decline in US-dollar list prices, resulting in moderately lower average pulp unit sales realizations year-over-year, combined with the notable impact of COVID-19 related downtime and an extended fall maintenance outage on one production line at CPPI's Northwood NBSK pulp mill ("Northwood") to enable the replacement of the lower furnace on its recovery boiler number five ("RB5").

Notwithstanding the unprecedented highs and lows faced by Canfor in 2020, the Company significantly strengthened its balance sheet and liquidity position through the year, finishing the year with net debt of $269.9 million, available liquidity of $1,357.8 million and a net debt to total capitalization ratio of 9.3%. This balance sheet strength is reflective of Management's continued disciplined approach to cash management, combined with corporate-wide initiatives implemented at the onset of the pandemic that were focused on a material reduction in capital expenditures for 2020, decreased working capital and suspension of all non-essential overhead spend.

Further discussion on the more significant developments is provided in the "Overview of 2020" section of this document.

COMPANY OVERVIEW

Canfor is a leading Canadian integrated forest products company based in Vancouver, BC, involved primarily in the lumber business, with production facilities in BC, Alberta, the US, and Sweden. Canfor has a 70% interest in Vida, which has lumber and value-added facilities in Sweden, and a 54.8% interest in CPPI, which is involved in the pulp and paper business with production facilities located in BC. As of December 31, 2020, Canfor employed 7,111 people, of which 1,278 are employed by CPPI.

Significant changes to the Company's business in 2020 include the following:

- On March 9, 2020, the Company completed the sale of the Vavenby forest tenure to Interfor Corporation ("Interfor") for net proceeds of $56.5 million, including working capital and other adjustments. The sale of the remaining Vavenby sawmill assets and liabilities to a third party for proceeds of $6.0 million (to be paid in instalments), was completed on August 20, 2020.
- On March 11, 2020, the World Health Organization ("WHO") declared the COVID-19 outbreak a pandemic. In response to the significant, disruptive effects of the pandemic, the Company announced extensive temporary capacity reductions across its lumber operations in April and May 2020, reducing production by approximately 370 million board feet. In addition to temporary curtailments, the Company announced the permanent closure of its Isle Pierre sawmill on May 20, 2020.

  In the pulp and paper segment, due to a shortage of economically viable fibre in the region caused by the aforementioned sawmill downtime, CPPI's Northwood pulp mill was curtailed for three weeks in the second quarter of 2020, with a four-week curtailment in the third quarter of 2020 at CPPI's PG pulp and paper and Intercontinental pulp mills.

  Apart from the aforementioned curtailments, as an essential service, the Company has continued to operate, albeit with some minor disruptions, increased safety protocols and additional cleaning and sanitizing activities.
- On May 31, 2019, the Company completed the first (49%) phase of a two-phase purchase of Elliott and on May 31, 2020, Canfor completed the second phase (51%) purchase, bringing its ownership interest in Elliott to 100%.
- On September 1, 2020, the Company's 70% owned subsidiary, Vida, completed the purchase of sawmill assets from Bergs for $45.6 million (303 million Swedish Krona ("SEK")), plus working capital and other adjustments of $13.1 million (87 million SEK). The sawmills (three operating and one idled) are located in southern Sweden and add 215 million board feet of spruce and pine products to Vida's annual capacity.
- On October 6, 2020, the Company completed the sale of its idled PolarBoard Oriented Strand Board ("OSB") plant and its permanently closed Tackama plywood plant to Peak Renewables ("Peak") for proceeds of $10.0 million (to be paid in instalments over two years).
- On November 17, 2020, the Company announced that it had entered into an agreement to sell its Fort Nelson forest tenure to Peak for $30.0 million (to be paid over multiple years). The sale is currently anticipated to close

in the first half of 2021, subject to customary closing conditions, including consent of the Minister of Forests, Lands and Natural Resource Operations and Rural Development ("Minister of Forests").

Lumber

Combined, Canfor's lumber operations have an annual production capacity of approximately 6.9 billion board feet of lumber reflecting organic growth capital investments in the US South and the above noted acquisitions of Elliott and Bergs. The majority of lumber produced by Canfor from its facilities is construction and specialty grade dimension lumber that ranges in size from one by three inches to two by twelve inches and in lengths from six to twenty-six feet. A significant and increasing proportion of Canfor's lumber production is comprised of specialty products that command premium prices, and high-value products including Square Edge lumber for the North American market, J-grade lumber for the Japanese market, and machine stress rated ("MSR") lumber used in engineered applications such as roof trusses and floor joists. Canfor has expanded its product offering in recent years to include high-value engineered wood products, higher-grade MSR lumber, premium one-inch boards, as well as an array of custom specialty products stemming from the acquisition of Vida, including strength-rated trusses, beams, and tongue-and-groove timber.

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

Canfor holds approximately 11.7 million cubic metres of annual harvesting rights for its solid wood operations under various forest tenures located in the interior region of BC and northern Alberta, and harvests logs from those tenures to supply its Western Canadian lumber operations. Any shortfalls in mill requirements are made up with wood purchased from other tenure holders in those areas. The wood fibre requirements in the US and Europe are met through open market purchases, substantially from private timberland owners.

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

Pulp and Paper

Canfor's Pulp and Paper segment is comprised of three NBSK pulp mills and the Taylor BCTMP mill ("Taylor"), all of which are owned and operated by CPPI in BC. CPPI produces NBSK pulp, BCTMP, and specialty paper. NBSK pulp is primarily a bleached product, although unbleached and semi-bleached grades are also produced at the Prince George pulp and paper mill.

CPPI mills have the annual capacity to produce approximately 1.1 million tonnes of NBSK pulp and approximately 230,000 tonnes of BCTMP. CPPI's paper machine, located at the Prince George pulp and paper mill, has an annual production capacity of approximately 140,000 tonnes of kraft paper.

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

Business Strategy

One of Canfor's primary objectives is to be the leading global supplier of sustainable wood products. Canfor is focused on increasing its building products business in global markets and on making higher value structural lumber and specialized products for specific customer needs.

Canfor's overall business strategy is to be a leader in the forest products industry, achieving top-quartile margin performance by:

- Attaining world-class safety performance;
- Expanding geographical markets, increasing market share of value-added products and building strong long-term partnerships with valued customers;
- Producing high-value products and maximizing the value from its available fibre sources;
- Attaining world-class supply chain performance and providing excellence in customer service;
- Achieving and maintaining a low-cost structure that supports sustainable forest practices, optimizes fibre utilization and enhances green energy production;
- Contributing to the climate change solution by supporting thriving forests that absorb carbon, producing a wide range of innovative high-value carbon-rich sustainable products;
- Maintaining a strong financial position;
- Growing an enterprise-wide culture of innovation, diversity and engagement by attracting, retaining and developing our employees; and
- Focusing on an efficient allocation of capital and deployment of resources to sustain top quartile operational performance, capitalizing on attractive growth opportunities and expanding into complementary business or product lines.

CPPI's overall business strategy is to be a pulp and paper industry leader with strong financial performance, accomplished through:

- Attaining world-class safety performance;
- Optimizing the value from its high-quality premium reinforced pulp and paper products, particularly in specialty end use applications;
- Attaining world-class supply chain performance and providing excellence in customer service;
- Preserving its cost-efficient operating position and securing sustainable economically competitive fibre;
- Contributing to the climate change solution through a wide range of innovative high-value carbon-rich sustainable products, and materially reducing its reliance on fossil fuels;
- Maintaining a strong financial position;
- Growing an enterprise-wide culture of innovation, diversity and engagement by attracting, retaining and developing our employees; and
- Capitalizing on accretive growth and diversification opportunities, particularly in the bioeconomy sector.

OVERVIEW OF 2020

Markets and Pricing

(i) Solid Wood

North American lumber demand began the year similar to the end of 2019, with US housing starts seasonally outperforming expectations at 1,617,000 units[3] in January 2020, driven largely by unseasonably warm and dry weather. Similarly, strength in the Canadian housing market early in the year further supported North American demand, driven largely by increased home construction activity.

With the global onset of COVID-19 towards the end of March and into early April, both US and Canadian housing starts declined dramatically, reflecting significant global uncertainty and weak lumber market fundamentals, and resulting in extensive market downtime across the lumber industry. In May and June, demand rebounded sharply across the North American lumber industry, driven by favourable macro-economic indicators, a boom in the repair and remodeling sector followed by a sharp increase in North American home construction activity.

Over the same period, similar volatility was experienced in Canada, with a COVID-19 induced slowdown in demand in the second quarter of 2020 followed by improved demand in the third and fourth quarters of 2020, largely due to increased activity in the Eastern provinces.

In contrast to North American markets, Asian offshore lumber demand was relatively flat throughout most of 2020, particularly in China, with improved demand in the back half of the year met by an increase in supply from Europe and Russia. Japan experienced slightly lower demand year-over-year, particularly highlighted in the third quarter of 2020, largely as a result of COVID-19 related impacts on the economy, before modestly improving in the fourth quarter of 2020.

European lumber demand was relatively stable moving into 2020 but weakened early in the year due to an increase in central European inventory levels. COVID-19 restrictions on construction in many European countries led to generally lower consumption through the second quarter and early in the third quarter of 2020. By the end of the third quarter and through the fourth quarter of 2020, however, demand in the region surged and surpassed pre-COVID-19 levels, driven largely by increased "do-it-yourself" demand, similar to North American trends.

Notwithstanding the significant market volatility experienced through 2020, the North American Random Lengths Western SPF 2x4 #2&Btr price averaged US$556 per Mfbm for 2020, up US$196 per Mfbm, or 54% from 2019, with similar increases seen across key grades and widths of Western SPF lumber as outlined below:

(Average Western SPF US$ price, per thousand board feet)[4]		**2020**		2019		Change
2x4 #2&Btr	**$**	**556**	$	360	$	196
2x4 #3	**$**	**435**	$	285	$	150
2x6 #2&Btr	**$**	**527**	$	348	$	179
2x10 #2&Btr	**$**	**505**	$	344	$	161

With improving lumber market fundamentals in late 2019, positive pricing momentum for Western SPF continued into 2020, resulting in a significant increase in the North American Random Lengths Western SPF 2x4 #2&Btr in January and February, reaching a high of US$442 per Mfbm, before declining dramatically to a low of US$282 per Mfbm in April in the wake of the pandemic. Shortly thereafter, the Western SPF 2x4 #2&Btr price rebounded considerably mid-year, driven largely by the aforementioned spike in demand and shortage of supply across the industry. Benchmark prices continued to climb through the third quarter of 2020, peaking at an all-time high of US$955 per Mfbm in September 2020, reflecting an increase of 239% from the low experienced in April 2020. Although prices corrected sharply through October, they trended upwards through November 2020 and posted significant gains in December 2020, supported by unseasonably strong demand, ending the year at near record levels of US$920 per Mfbm.

[3] Source: US Bureau of the Census.
[4] Random Lengths Publications, Inc.

The North American Random Lengths SYP East 2x4 #2 price experienced similar fluctuations in 2020 to Western SPF pricing, with prices rising early in the second quarter of 2020 and continuing their upward trajectory for nearly twenty-four consecutive weeks before reaching a high of US$1,035 per Mfbm early in the fourth quarter of 2020. SYP US-dollar benchmark prices then experienced a dramatic decline in October and November, before returning to record levels at the end of December, and then reaching an unprecedented high of US$1,180 per Mfbm in early 2021.

For 2020 overall, the SYP East 2x4 #2 price increased US$195 per Mfbm, or 48%, from 2019 with similar price increases seen for most wider-width SYP lumber products as highlighted in the following table:

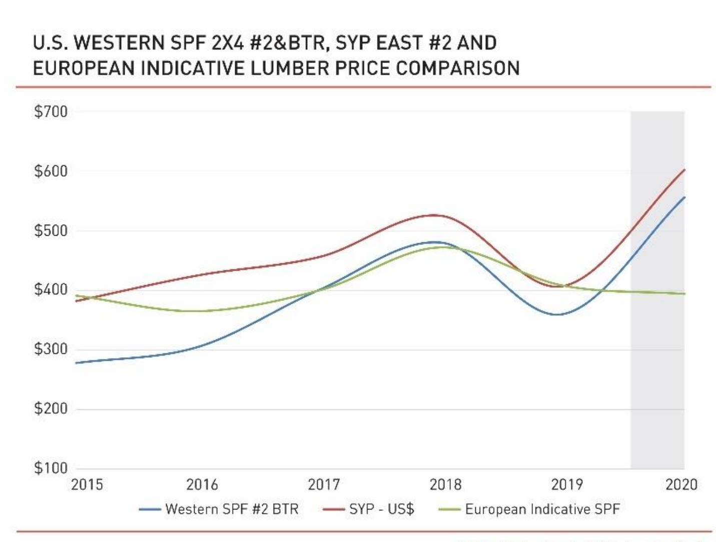
(Average SYP East US$ price, per thousand board feet)[5]	**2020**	2019	Change
2x4 #2	**$ 602**	$ 407	$ 195
2x6 #2	**$ 492**	$ 310	$ 182
2x8 #2	**$ 501**	$ 304	$ 197
2x10 #2	**$ 524**	$ 321	$ 203
2x12 #2	**$ 529**	$ 487	$ 42

In Europe, despite the significant strength seen in the repair and remodeling sector through the latter part of 2020, the European indicative SPF benchmark lumber price lagged somewhat behind North American benchmark pricing, averaging SEK3,631 per Mfbm for 2020, down SEK229 per Mfbm, or 6%, from the prior year, reflecting the nature of European contract pricing (which is traditionally negotiated quarterly in advance), as well as weak demand early in the year as a result of COVID-19.

(European indicative SPF SEK price, per thousand board feet)[6]	**2020**	2019	Change
European indicative SPF lumber price	**3,631**	3,860	(229)

As mentioned, prices for Western SPF and SYP reached unprecedented levels in 2020, while the European indicative SPF lumber price saw moderate declines year-over-year (see Chart 1).

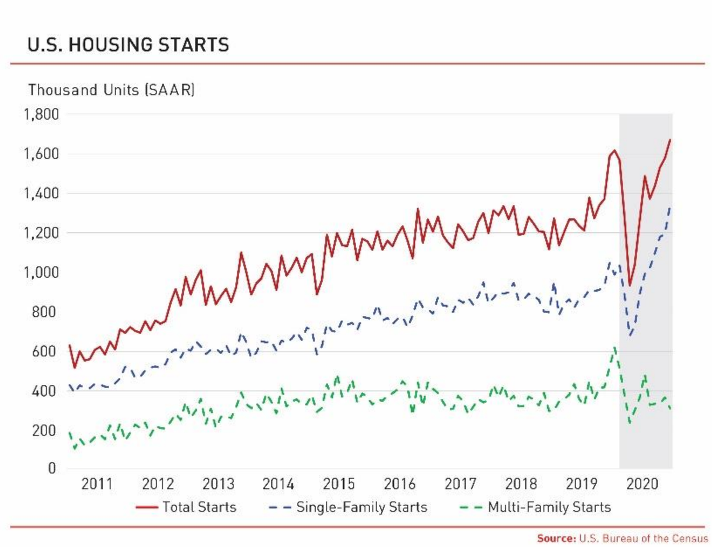
Chart 1



US housing starts, on a seasonally adjusted basis, averaged 1,396,000 units[5] in 2020, an increase of 8% from 2019 and representing the highest annual average since 2007 (Chart 2). Single-family starts, which consume a higher proportion of lumber, were up 12% in 2020, primarily reflecting increased demand for single-family homes further from urban centers, whereas multi-family starts were down 1%.

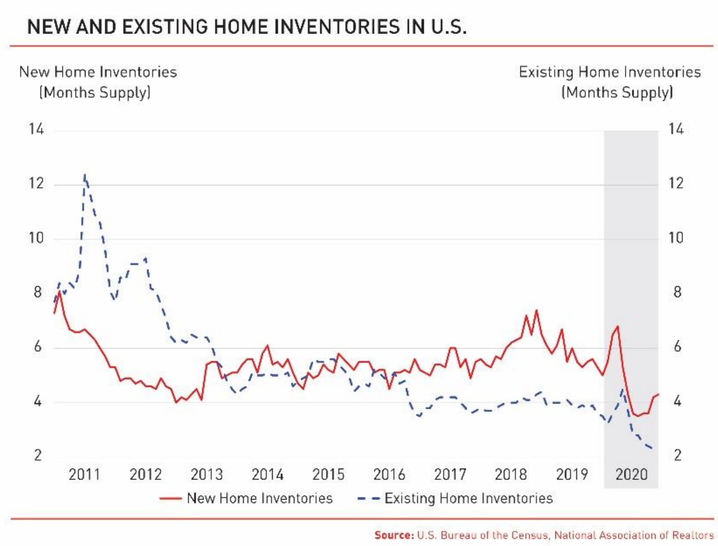
[5] Random Lengths Publications, Inc.
[6] European indicative lumber price is an internally generated benchmark based on delivered price to the largest continental market.

Chart 2



Despite a sharp increase in the fourth quarter of 2020, new home inventories remained below historical norms through most of 2020, dropping to a seasonal low of 3.5 months' supply in the third quarter of 2020 (Chart 3). Existing home inventory also stayed below the historical average for most of 2020, declining significantly at the beginning of the third quarter of 2020 with downward pressure continuing through the fourth quarter of 2020. Both metrics highlight the much-improved market fundamentals for housing in the US market towards the end of 2020 and into 2021, as sustained demand has continued to significantly outpace available supply.

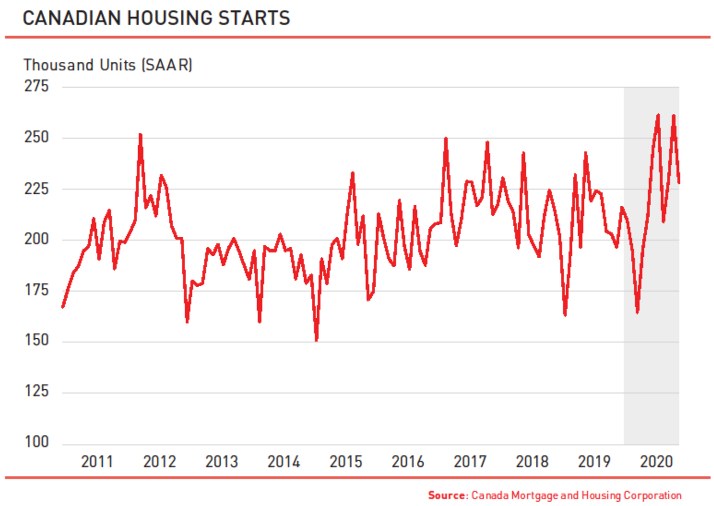
Chart 3



Housing starts in Canada were solid in early 2020 before declining significantly as a result of the disruptive effects of the pandemic through the key building months of March through May, before returning to more normal levels in June 2020. Overall, housing starts in Canada, at 219,000 units[7], were up 5% from 2019 (Chart 4) largely reflecting improved affordability driven by declining interest rates, despite headwinds experienced in the construction sector for much of the year.

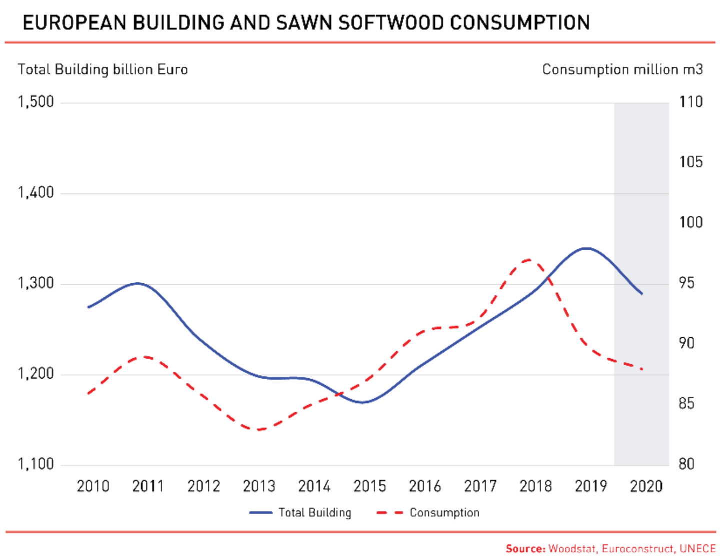
[7] Canada Mortgage and Housing Corporation ("CMHC")

Chart 4



As mentioned, Asian offshore lumber demand was relatively flat in 2020, particularly in China, primarily reflecting balanced inventory levels and increased supply from outside of North America. Housing starts in Japan were down 10% from the prior year, offset by modestly improved demand in the non-residential sector.

Chart 5



As mentioned above, European lumber demand significantly improved in the second half of 2020, surpassing pre-pandemic levels, driven largely by strength in the "do-it-yourself" segment. Despite this uplift, average European lumber demand for 2020 lagged behind 2019 levels, with building activity and lumber consumption[8] in the region modestly lower year-over-year (Chart 5).

The Canadian dollar weakened slightly against the US-dollar in 2020, averaging $0.746[9] per US-dollar, down 1 cent, or 1%, from 2019, and weakened against the SEK, averaging $6.862[8] per SEK, down 4%, from the prior year.

[8] WOODSTAT, Euroconstruct, UNECE
[9] Bank of Canada (monthly average for the period)

(ii) Pulp

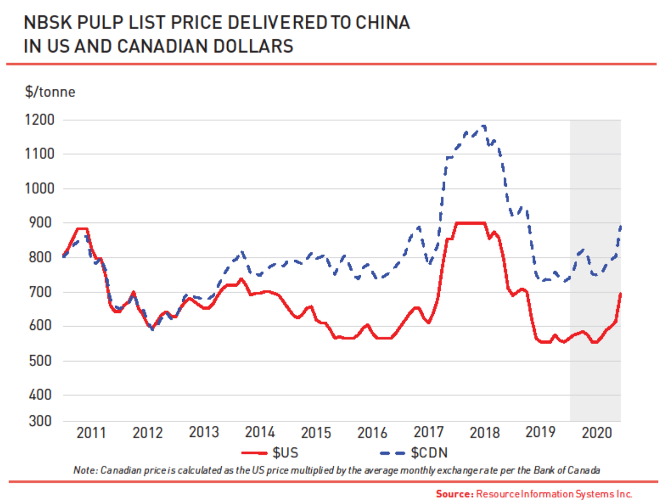
The onset of the global COVID-19 pandemic early in the year led to significant volatility in global pulp dynamics with an initial spike in global softwood pulp demand, as pulp markets reacted to shifting demand and a temporary surge in at-home tissue products. However, as the sustained and uncertain impacts of the pandemic continued, the printing and writing segment started to experience sharp declines mid-year, most notably in the at-office category. Towards the end of the year, however, against a backdrop of planned and unplanned downtime, coupled with improved demand in China, supply and demand came more into balance, with the result that prices started to see some upward momentum.

As a result of the aforementioned factors, NBSK pulp list prices to China for the year averaged US$588 per tonne, US$24 per tonne, or 4%, lower than the 2019 average price; however, unlike a year earlier, prices ended 2020 at US$695 per tonne, US$140 per tonne higher than at the end of 2019. North American pulp prices experienced similar trends to Asia with list prices to that region also trading within a relatively narrow range, and showing a modest improvement from US$1,115 per tonne in January to US$1,155 per tonne in December (before taking account of customer discounts, which were broadly unchanged year-over-year).

Reflecting the modest improvement in market conditions in the fourth quarter of 2020, global softwood pulp producer inventories ended 2020 at 35 days[10] of supply, two days lower than a year earlier, and closer to the balanced range of 27-34 days.

The following charts show the NBSK pulp list price movements in 2020, before taking account of customer discounts and rebates (Chart 6), global pulp shipments by destination (Chart 7) and the global pulp inventory levels (Chart 8).

Chart 6



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

Chart 7

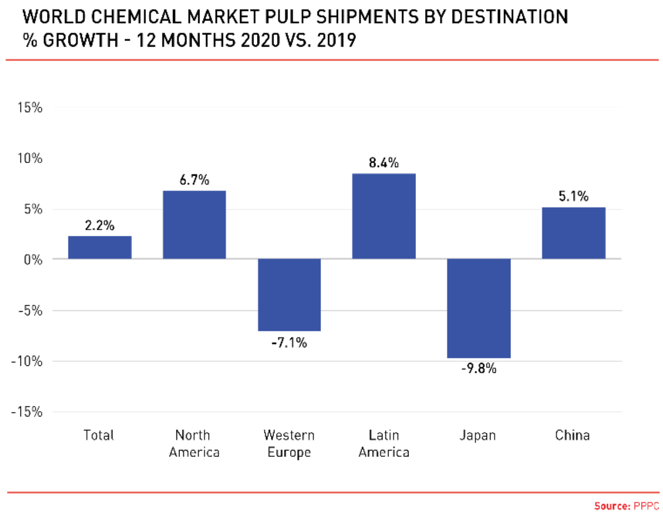
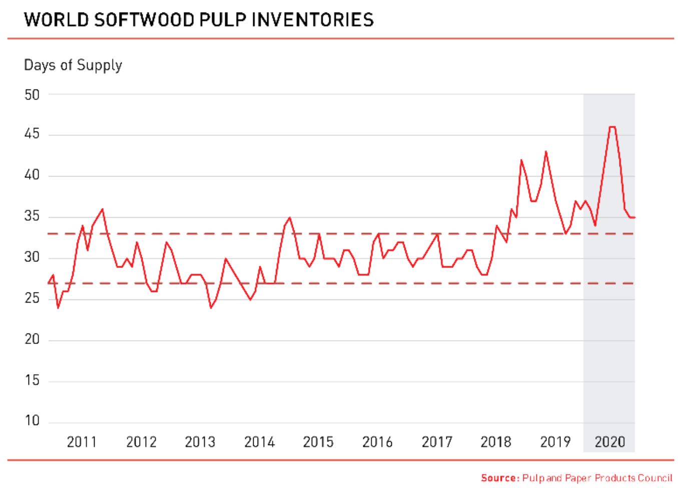


Chart 8



Solid Wood Operations

The Company's confidence in the longer-term prospects of the lumber industry has driven an investment strategy over the last 10 years aimed at positioning itself as a top-quartile margin performer. In support of this objective, the Company has completed a number of targeted strategic capital initiatives at its sawmills over the years, all aimed at enhancing the quality and value offering of products to its customers from a top-tier productivity and cost position. These strategic capital investments have been designed to support the Company's high-value focus, allowing the Company to optimize the financial margins and value from its strong fibre positions in Western Canada, the US South and, more recently, in Europe. In 2020, such strategic initiatives included Vida's acquisition of Bergs, the second phase of the Elliott acquisition, as well as the substantial completion of the previously announced US$125 million organic growth program in the US South, specifically at the Company's Fulton and Camden sawmills. Incremental SYP capacity of 300 million board feet from this program, combined with the acquisition of 210 million board feet of Elliott capacity, increased the Company's US South total capacity to approximately 2.0 billion board feet by the end of 2020.

Excluding acquisitions, capital spending in the lumber segment for 2020 totaled $125.4 million, down $72.8 million, or 37% from 2019, largely reflecting the implementation of COVID-19 cost containment measures early in 2020 and to a lesser extent, more challenging lead times for key equipment. Although capital deployed in Western Canada was primarily comprised of maintenance-of-business expenditures in the current period, spend at the Company's sawmill operations in the US South largely reflected the abovementioned organic growth program.

In Western Canada, forecasts in recent years have predicted that annual allowable harvest rates in the BC Interior could be reduced by upwards of 30% from current levels, as a result of the degradation of pine timber resulting from the Mountain Pine Beetle ("MPB") infestation. Despite various steps taken by the Company in recent years to secure access to high-quality fibre and ensure the viability and competitiveness of its operations, in the second quarter of 2020, the Company permanently closed its Isle Pierre sawmill as a result of an insufficient supply of economically viable timber following the MPB epidemic, coupled with the major global economic downturn as a result of the COVID-19 pandemic. This reduced Canfor's annual production capacity by approximately 120 million board feet.

Looking forward, the Company remains focused on optimizing the usage of its fibre supply through targeted capital investments, improved fibre utilization, disciplined cost management and maximized residual fibre revenue, and remains focused on ensuring strong operational performance at all of its lumber operations.

Pulp and Paper Operations

Total pulp and paper production in 2020 was down 21,000 tonnes, or 2%, compared to the prior year, largely reflecting the year-over-year impact of several scheduled and unplanned outages. Combined, COVID-19 related curtailments and Northwood's RB5 lower furnace replacement and extended outage reduced pulp production by 133,000 tonnes. After being postponed from the spring to the fall of 2020 due to the onset of COVID-19, CPPI completed scheduled outages in the current year at its Northwood and Taylor pulp mills which further reduced pulp production by 55,000 tonnes. Despite the ongoing COVID-19 disruption and BCTMP market weakness, CPPI's Taylor mill ran well through the current year, setting a new annual production record in 2020. In 2019, pulp production was most notably impacted by phased market and fibre-related curtailments at all of CPPI's pulp and paper facilities, which reduced pulp production by 140,000 tonnes, as well as scheduled outages at CPPI's Intercontinental, PG and Taylor pulp mills (approximately 25,000 tonnes).

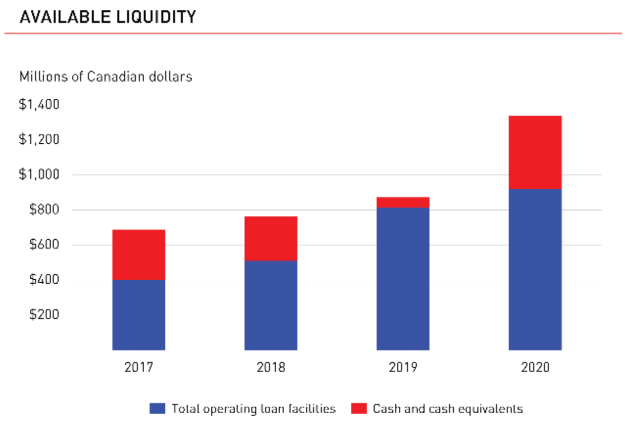
In light of the challenging market and operating conditions experienced in 2019, in early 2020 CPPI Management commenced a $40 million cost reduction initiative aimed at reducing unit manufacturing costs, through improving reliability, reducing overhead cost and improving fibre utilization. With the various disruptions and uncertainties brought on by COVID-19, CPPI's efforts on several fronts were delayed, but significant progress was achieved by the Taylor mill, which lowered its annual run-rate conversion costs by approximately 20%. With the Company having much healthier fibre inventories, a key focus of CPPI's kraft pulp mills in 2021 will be on improving operational reliability and closely managing its manufacturing and fibre costs.

Capital spending in 2020 totaled $73.3 million, a decrease of $29.7 million from the prior year, principally due to COVID-19 measures implemented at the onset of the pandemic to defer planned projects and suspend, where possible, in-progress initiatives. Capital spend in 2020 primarily comprised the completion of the construction of a new water treatment plant servicing CPPI's PG and Intercontinental pulp mills, as well as upper furnace upgrades and the lower furnace replacement at Northwood's RB5.

Balance Sheet and Liquidity

As previously mentioned, notwithstanding the challenges brought on by the pandemic, the Company significantly strengthened its balance sheet and liquidity position through the year, finishing the year with net debt of $269.9 million, available liquidity of $1,357.8 million (Chart 9) and a net debt to total capitalization ratio of 9.3%. As a precautionary measure in the height of the pandemic in the second quarter of 2020, the Company increased the principal amount of its revolving credit facility from $100.0 million to $200.0 million. The $200.0 million revolving facility was undrawn through the year and remains undrawn as at December 31, 2020. The incremental liquidity, combined with strong cash generated from operations as well as cost conservation initiatives, a disciplined approach to cash management and materially reduced capital spending throughout 2020, supported the Company's efforts to preserve its solid financial position.

Chart 9



Environmental, Social and Governance ("ESG") Reporting

One of Canfor's primary objectives is to be the leading global supplier of sustainable wood products. As a company that uses a renewable resource to produce sustainable products, it is part of the climate change solution and the circular economy. The Company is well positioned to play a key role in the shift to a circular, sustainable global economy and is committed to this transition for the benefit of the environment and the Company's communities, partners and people.

As part of this leading role, the Company is committed to providing comprehensive and transparent reporting of sustainability practices, goals and metrics. As the best-in-class standards of sustainability goals and reporting continue to evolve, the Company is regularly reassessing its reporting processes and revisiting its corporate strategy. The Company continues to enhance sustainability efforts by refining its carbon policy and reduction targets, identifying key performance indicators to track its journey and by working in partnership with Indigenous Nations and key stakeholders. In Canfor's 2020 sustainability reporting, the Company will continue its evolution by providing more transparent information on ESG-related matters.

OVERVIEW OF CONSOLIDATED RESULTS – 2020 COMPARED TO 2019

Selected Financial Information and Statistics

(millions of Canadian dollars, except for per share amounts)		**2020**		**2019**
Sales	**$**	**5,454.4**	$	4,658.3
Operating income before amortization	**$**	**1,108.2**	$	67.9
Operating income (loss)	**$**	**727.3**	$	(294.3)
Net income (loss)	**$**	**559.9**	$	(269.7)
Net income (loss) attributable to equity shareholders of the Company	**$**	**544.4**	$	(263.0)
Net income (loss) per share attributable to equity shareholders of the Company, basic and diluted	**$**	**4.35**	$	(2.10)
ROIC – Consolidated[11]		**23.5%**		(8.7%)
Average exchange rate (US$ per Cdn$1.00)[12]	**$**	**0.746**	$	0.754
Average exchange rate (SEK per Cdn$1.00)[12]		**6.862**		7.127

[11] Consolidated Return on Invested Capital ("ROIC") is equal to operating income (loss) plus realized gains (losses) on derivative financial instruments (i.e. excluding mark-to-market adjustments), plus other income (expense) and excluding non-controlling interest, divided by the average invested capital during the period. Invested capital represents total assets excluding cash and total liabilities excluding term debt, retirement benefit obligations, long-term deferred reforestation obligations, and deferred taxes.
[12] Source – Bank of Canada (monthly average for the period).

Selected Cash Flow Information

(millions of Canadian dollars)		2020		2019
Operating income (loss) by segment:				
Lumber	**$**	**816.0**	$	(227.4)
Pulp and Paper	**$**	**(56.1)**	$	(31.0)
Unallocated and Other	**$**	**(32.6)**	$	(35.9)
Total operating income (loss)	**$**	**727.3**	$	(294.3)
Add: Amortization[12]	**$**	**380.9**	$	362.2
Total operating income before amortization	**$**	**1,108.2**	$	67.9
Add (deduct):				
Working capital movements	**$**	**33.6**	$	114.4
Restructuring, mill closure and severance costs paid	**$**	**(13.0)**	$	(12.0)
Defined benefit plan contributions, net	**$**	**(13.5)**	$	(21.9)
Income taxes received (paid), net	**$**	**54.5**	$	(11.5)
Adjustment to accrued duties[14]	**$**	**(153.8)**	$	41.3
Other operating cash flows, net[15]	**$**	**57.6**	$	22.5
Cash from operating activities	**$**	**1,073.6**	$	200.7
Add (deduct):				
Capital additions	**$**	**(201.5)**	$	(302.8)
Finance expenses paid	**$**	**(46.1)**	$	(49.7)
Proceeds from (repayments of) term debt, net	**$**	**(8.2)**	$	280.5
Cash distributions paid to non-controlling interests	**$**	**(13.2)**	$	(27.8)
Consideration paid for Bergs sawmill assets	**$**	**(58.7)**		-
Proceeds on sale of Vavenby forest tenure	**$**	**56.5**	$	-
Phased acquisition of Elliott, net of cash acquired, including term loan	**$**	**(44.6)**	$	(56.1)
Acquisition of Vida, net of cash acquired, including holdback	**$**	**-**	$	(572.0)
Other, net[15]	**$**	**(29.0)**	$	(47.4)
Change in cash / operating loans	**$**	**728.8**	$	(574.6)

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

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

After-tax impact, net of non-controlling interests

(millions of Canadian dollars, except for per share amounts)		2020		2019
Shareholder Net Income (Loss), as reported	**$**	**544.4**	$	(263.0)
Foreign exchange (gain) loss on term debt and duty deposits recoverable	**$**	**1.7**	$	(3.6)
Countervailing and anti-dumping duty deposits expense, net	**$**	**13.7**	$	130.5
Loss on derivative financial instruments	**$**	**3.6**	$	24.0
Restructuring, mill closure and severance costs, net	**$**	**11.2**	$	15.5
Net impact of above items	**$**	**30.2**	$	166.4
Adjusted shareholder net income (loss)	**$**	**574.6**	$	(96.6)
Shareholder net income (loss) per share (EPS), as reported	**$**	**4.35**	$	(2.10)
Net impact of above items per share	**$**	**0.24**	$	1.33
Adjusted shareholder net income (loss) per share	**$**	**4.59**	$	(0.77)

OPERATING RESULTS BY BUSINESS SEGMENT – 2020 COMPARED TO 2019

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

Canfor's operations include the Lumber and Pulp and Paper segments. The results of the panels business are included in the 'Unallocated & Other' segment.

Lumber

Selected Financial Information and Statistics – Lumber

Summarized results for the Lumber segment for 2020 and 2019 are as follows:

(millions of Canadian dollars, unless otherwise noted)	2020	2019
Sales[16]	**$ 4,464.1**	$ 3,570.6
Operating income before amortization[16]	**$ 1,113.5**	$ 40.9
Operating income (loss), as reported[16]	**$ 816.0**	$ (227.4)
Countervailing and anti-dumping duty expense, net[17]	**$ 18.8**	$ 178.7
Inventory write-down recovery	**$ (17.6)**	$ (8.6)
Restructuring, mill closure and severance costs, net[18]	**$ 15.4**	$ 21.2
Adjusted operating income (loss)	**$ 832.6**	$ (36.1)
Capital expenditures	**$ 125.4**	$ 198.2
Average Western SPF 2x4 #2&Btr lumber price in US$[19]	**$ 556**	$ 360
Average Western SPF 2x4 #2&Btr lumber price in Cdn$[19]	**$ 745**	$ 478
Average SYP 2x4 #2 lumber price in US$[20]	**$ 602**	$ 407
Average SYP 2x4 #2 lumber price in Cdn$[20]	**$ 807**	$ 540
Average European indicative SPF lumber price in SEK[21]	**3,631**	3,860
Average European indicative SPF lumber price in US$[21]	**$ 394**	$ 408
Average European indicative SPF lumber price in Cdn$[21]	**$ 529**	$ 542
US housing starts (thousand units SAAR)[22]	**1,396**	1,295
Production – Western SPF lumber (MMfbm)[23]	**2,492**	2,760
Production – SYP lumber (MMfbm)[23]	**1,549**	1,438
Production – European SPF lumber (MMfbm)[23]	**1,163**	865
Shipments – Western SPF lumber (MMfbm)[24]	**2,505**	2,858
Shipments – SYP lumber (MMfbm)[24]	**1,580**	1,409
Shipments – European SPF lumber (MMfbm)[24]	**1,251**	854

16 2020 includes sales of $970.2 million, operating income of $107.5 million and operating income before amortization of $178.3 million from European SPF lumber operations (2019 – sales of $724.5 million, operating income of $28.6 million and operating income before amortization of $82.3 million). If the acquisition of Vida has occurred on January 1, 2019, it is estimated that for the year ended December 31, 2019, European SPF lumber sales would have been $885.2 million, with operating income of $50.6 million and operating income before amortization of $111.6 million. Operating income from the European SPF operations in 2020 includes $42.1 million (2019 - $38.3 million) of incremental amortization and other expenses driven by the purchase price allocation at the acquisition date.

17 Adjusted for CVD and ADD expensed for accounting purposes.

18 Adjusted for restructuring, mill closure and severance costs, net, primarily related to closures and permanent or indefinite curtailments.

19 Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.); Average Western SPF 2x4 #2&Btr lumber price in Cdn$ calculated as average Western SPF 2x4 #2&Btr lumber price in US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average for the period.

20 Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.); Average SYP 2x4 #2 lumber price in Cdn$ calculated as average SYP 2x4 #2 lumber price in US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average for the period.

21 European indicative lumber price is an internally generated benchmark based on delivered price to the largest continental market; Average European indicative SPF lumber price in US$ calculated as average European indicative lumber price in SEK multiplied by the average exchange rate – US$ per SEK1.00 according to Bank of Canada monthly average rate for the period; Average European indicative SPF lumber price in Cdn$ calculated as average European indicative lumber price in SEK multiplied by the average exchange rate – Cdn$ per SEK1.00 according to Bank of Canada monthly average rate for the period.

22 Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").

23 Excluding production of trim blocks.

24 Canfor, Vida or Elliott produced lumber, including lumber purchased for remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

Markets

As highlighted in the "Overview of 2020: Markets and Pricing – Solid Wood" section of this document, the moderate up-tick in North American lumber market fundamentals and favourable macroeconomic conditions experienced at the end of 2019, continued early into the first quarter of 2020. Seasonally adjusted US housing starts averaged 1,592,000 units for January and February, reflecting the highest annual average since 2007, but dropped sharply in April 2020 to their lowest levels since 2014 (averaging 934,000 units) as the effects of COVID-19 spread globally. The decline in global demand and construction activity throughout the US led to widespread curtailments across the lumber industry. This was followed by a surge in demand in the latter part of the second quarter of 2020, largely led by strength in the repair and remodeling sector combined with a sharp increase in single family homes in light of an urban-suburban shift, driving Western SPF and SYP benchmark lumber prices to record levels in the third quarter of 2020. As supply constraints slowly alleviated, lumber prices reversed sharply early in the fourth quarter of 2020 before spiking again through December and closely approaching record-highs seen in the prior quarter. US housing starts, on a seasonally adjusted basis, averaged 1,396,000 units for 2020, up 8% from 2019 largely driven by a 12% increase in single-family starts (which consumes a higher proportion of lumber).

Canadian lumber demand followed similar trends to the US, with an initial COVID-19 induced slowdown in the first half of the year, followed by a surge in repair and remodel activity and single-family home construction, particularly in the Eastern provinces, through the latter half. Canadian housing starts for 2020 averaged 219,000 units, on a seasonally adjusted basis, up 5% from 2019 largely reflecting improved affordability driven by declining interest rates.

In contrast to North American markets, Asian offshore lumber demand was relatively flat throughout most of 2020, particularly in China, with improved demand in the back half of the year met by an increase in supply from Europe and Russia.

European lumber demand was relatively stable moving into 2020; however weakness early in the year, stemming largely from an increase in central European inventory levels coupled with COVID-19 impacts on construction, resulted in tepid demand through the first half of 2020. During the third quarter, continuing into the fourth quarter of 2020, demand in the region showed a marked recovery driven largely by increased "do-it-yourself" demand, which tracked similar to North American trends.

Sales

Revenues for the lumber segment were $4.46 billion for 2020, an all-time annual record, and up 25% compared to 2019. The notable increase was principally due to substantially higher Western SPF and SYP unit sales realizations driven by the record US-dollar pricing experienced mid-year, as well as significantly higher European and SYP shipments year-over-year and a 1 cent, or 1%, weaker Canadian dollar.

Total lumber shipments were approximately 5.34 billion board feet for the year, up 4% from 5.12 billion board feet shipped in the previous year, largely due to a 3% increase in total production year-over-year.

As previously mentioned, with the improving lumber market fundamentals in late 2019, positive pricing momentum continued into 2020, with the North American Random Lengths Western SPF 2x4 #2&Btr reaching a high of US$442 per Mfbm early in the year, before declining dramatically to a low of US$282 per Mfbm in April in the wake of the pandemic. Shortly thereafter, the Western SPF 2x4 #2&Btr price rebounded considerably mid-year, peaking at an all-time high of US$955 per Mfbm in September 2020. Although prices corrected sharply through October, they ended the year at near record levels of US$920 per Mfbm.

Notwithstanding the significant market volatility experienced through 2020, the North American Random Lengths Western SPF 2x4 #2&btr price averaged US$556 per Mfbm for 2020, up US$196 per Mfbm, or 54% from 2019. A similar increase was seen in the Company's Western SPF lumber unit sales realizations, principally driven by US-dollar benchmark pricing movements across key grades and widths, moderated, to a degree, by less pronounced offshore unit sales realizations.

The North American Random Lengths SYP East 2x4 #2 price experienced similar fluctuations in 2020 to Western SPF pricing, reaching a high of US$1,035 per Mfbm early in the fourth quarter of 2020 before declining dramatically towards the end of the year and spiking again early in 2021 to an unprecedented high of US$1,180 per Mfbm. For 2020, the Company's SYP lumber unit sales realizations were materially higher than the prior year, principally reflecting a US$195 per Mfbm, or 48%, increase in the average SYP East 2x4 #2 price over the same period, with similar price increases seen for most wider-width SYP lumber products.

In Europe, the European indicative SPF benchmark lumber price lagged somewhat behind North American benchmark pricing, averaging SEK3,631 per Mfbm for 2020, down SEK229 per Mfbm, or 6%, from the prior year, primarily reflecting the nature of European contract pricing (which is traditionally negotiated quarterly in advance), as well as weak demand early in the year as a result of COVID-19. The Company's European SPF unit sales realizations, however, were broadly in line with the prior year, as a higher-value sales mix and a 4% weaker Canadian dollar (compared to the SEK) offset the lag in European benchmark pricing.

Other revenues for the lumber segment (which are primarily comprised of residual fibre, pulp log and pellet sales as well as the Company's European operations' other related revenues) increased year-over-year, principally reflecting a full year of European other revenues in the current period, more than offsetting declines in market-based pricing for residual fibre.

Operations

Total lumber production for 2020 was 5.20 billion board feet, up 3% from the prior year, as the benefit of a full year of European SPF production, including the recent acquisition of Bergs, combined with increased production in the US South, more than offset the impact of lower production in Western Canada and COVID-19 related downtime across all operating regions. Production at the Company's US South sawmill operations was up 8% from the prior year, largely due to the addition of Elliott and, to a lesser extent, improved productivity year-over-year following the completion of capital upgrades, more than offsetting COVID-19 related downtime in that region. Conversely, production at the Company's Western SPF operations decreased 10% year-over-year, primarily reflecting reduced capacity following the closure of Vavenby and indefinite curtailment of Mackenzie in 2019, combined with the permanent closure of Isle Pierre in 2020. Although the impacts of COVID-19 resulted in widespread temporary curtailments across the BC region, particularly in April and May, these were largely offset by extensive downtime in the prior year driven by weak market conditions and high log costs.

Lumber unit manufacturing costs were modestly lower than the previous year principally due to reduced log costs in BC and to a lesser extent, Europe, combined with a decrease in unit cash conversion costs at the Company's US South and Western SPF operations. The decline in BC log costs was primarily attributable to lower market-based stumpage arising from a favourable lag in the Market Pricing System stumpage rate reset; in 2019, the stumpage rate was reset on July 1 and reflected, at the time, record-high benchmark lumber pricing seen in 2018. Despite new Western SPF benchmark pricing records set towards the end of 2020, market-based increases in stumpage did not come into effect until the first quarter of 2021. European log costs were modestly lower compared to the prior year, largely reflecting an increase in supply across the region. Log costs in the US South were broadly in line with the prior year. Unit cash conversion costs improved slightly in the Company's US South and Western SPF operations, principally due to a decrease in spend tied to COVID-19 cash conservation efforts, and to a lesser extent, the US South's unit conversion costs also benefited from increased production. In Europe, the Company's unit cash conversion costs for 2020 were broadly comparable to the prior year.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[25]

Summarized results for the Pulp and Paper segment for 2020 and 2019 are as follows:

(millions of Canadian dollars, unless otherwise noted)		2020		2019
Sales	**$**	**990.3**	$	1,087.7
Operating income before amortization[26]	**$**	**26.1**	$	61.9
Operating loss	**$**	**(56.1)**	$	(31.0)
Inventory write-down (recovery)	**$**	**(8.5)**	$	10.7
Adjusted operating loss	**$**	**(64.6)**	$	(20.3)
Capital expenditures	**$**	**73.3**	$	103.0
Average NBSK pulp price delivered to China - US$[27,28]	**$**	**588**	$	612
Average NBSK pulp price delivered to China - Cdn$[27,28]	**$**	**789**	$	812
Production – pulp (000 mt)		**1,018**		1,035
Production – paper (000 mt)		**123**		127
Shipments – pulp (000 mt)		**1,045**		1,027
Shipments – paper (000 mt)		**131**		119

[25] Includes 100% of CPPI, which is consolidated in Canfor's operating results. Pulp production and shipment volumes presented are for both NBSK pulp and BCTMP.
[26] Amortization includes amortization of certain capitalized major maintenance costs.
[27] Per tonne, NBSK pulp list price delivered to China (Resource Information Systems, Inc.); Average NBSK pulp price delivered to China – Cdn$ calculated as average NBSK pulp price delivered to China – US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average rate for the period.
[28] Effective January 1, 2020, all RISI China market pricing has changed from "Delivered to China – Effective list price" to "Delivered to China – Net price" as distributed through Fastmarkets RISI.

Markets

As mentioned, global pulp market fundamentals were very challenging through most of 2020 as the direct and indirect effects of COVID-19 weighed on the pulp and paper industry. Following a modest rebound in Asian pulp markets early in the year, global pulp markets weakened early in the second quarter of 2020 reflecting the spread of COVID-19 globally, and remained depressed until the fourth quarter of 2020. The structural decline in the printing and writing segment experienced in prior years was accelerated with the onset of the pandemic, while solid demand for at-home tissue products helped to partially offset this weakness.

NBSK pulp list prices to China for the year averaged US$588 per tonne, US$24 per tonne, or 4%, lower than the 2019 average price; however, unlike a year earlier, prices ended 2020 at US$695 per tonne, US$140 per tonne higher than at the end of 2019. North American pulp prices experienced similar trends to Asia with list prices to that region also trading within a relatively narrow range, and showing a modest improvement from US$1,115 per tonne in January to US$1,155 per tonne in December (before taking account of customer discounts, which were broadly unchanged year-over-year).

Reflecting the modest improvement in market conditions in the fourth quarter of 2020, global softwood pulp producer inventories ended 2020 at 35[29] days of supply, two days lower than a year earlier, and closer to the balanced range of 27-34 days.

Global kraft paper market softness and weak pricing experienced at the end of 2019 carried into the early part of 2020. In the second and third quarters of 2020, however, demand improved somewhat, particularly in North America, as consumer uncertainty associated with COVID-19 led to an up-tick in demand for food grade kraft paper products and home building supplies stored in kraft paper products. Offshore markets experienced similar trends, albeit lagged by several months to North America. As a result, overall global kraft paper pricing remained relatively flat year-over-year.

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

Sales

CPPI's pulp shipments in 2020 were 1.05 million tonnes, up 18,000 tonnes, or 2%, from 2019, as a drawdown in pulp inventory at the end of 2020, more than offset a 2% decrease in pulp production.

As mentioned, for the 2020 year as a whole, NBSK pulp list prices to China and North America were down 4% and 8%, respectively year-over-year (before discounts, which were largely unchanged). Average NBSK pulp unit sales realizations were significantly lower in 2020 largely reflecting the lower list prices and, to a lesser extent, a lower-value regional sales mix, which outweighed the benefit of the weaker Canadian dollar. Average BCTMP unit sales realizations were down slightly in 2020 as a gradual improvement in BCTMP US-dollar prices through the first half of the year was more than offset by a sharp decline in pricing through most of the second half of 2020.

Energy revenues in 2020 were broadly in line with the prior year as turbine operating days and energy generation were comparable year-over-year.

CPPI's paper shipments in 2020, at 131,000 tonnes, were up 12,000 tonnes from 2019, primarily reflecting a drawdown of paper inventory at the end of the current year. Paper unit sales realizations for 2020 were significantly lower than 2019, as the aforementioned COVID-19 related modest up-tick in North American kraft paper demand and US-dollar pricing in the second and third quarters of 2020, were more than outweighed by the weak global kraft paper markets and pricing through the first quarter of 2020, and, to a lesser extent, a change in regional sales mix year-over-year.

Operations

Pulp production in 2020, at 1.02 million tonnes, was broadly in line with that produced in 2019, largely reflecting the year-over-year impact of several scheduled and unplanned outages. Combined, COVID-19 related curtailments and Northwood's RB5 lower furnace replacement and extended outage reduced pulp production by 133,000 tonnes. After being postponed from the spring to the fall of 2020 due to the onset of COVID-19, CPPI completed scheduled outages in the current year at its Northwood and Taylor mills which further reduced pulp production by 55,000 tonnes. Despite the ongoing COVID-19 disruption and BCTMP market weakness, CPPI's Taylor mill ran well through the current year, setting a new annual production record in 2020. In 2019, pulp production was most notably impacted by phased market and fibre-related curtailments at all of CPPI's pulp facilities, which reduced pulp production by 140,000 tonnes, as well as scheduled outages at CPPI's Intercontinental, PG and Taylor pulp mills (approximately 25,000 tonnes).

Pulp unit manufacturing costs moderately improved in 2020 compared to the prior year, principally due to modestly lower fibre costs and a slight decline in pulp unit conversion costs associated with a reduction in maintenance spend during the aforementioned curtailments in the current year. The decrease in fibre costs compared to the prior year primarily reflected the lower market-based prices for sawmill residual chips (linked to lower Canadian NBSK pulp prices), offset in part by an increased proportion of higher-cost whole log chips, particularly during the second and third quarters of 2020.

Paper production in 2020 was 123,000 tonnes, down 4,000 tonnes, from 2019, principally as a result of the year-over-year impact of fibre-related curtailments. Lower paper unit manufacturing costs in 2020 were primarily due to a significant decrease in slush pulp costs (linked to lower Canadian dollar NBSK market pulp prices), offset in part, by a slight increase in paper unit conversion costs, largely related to lower production levels in 2020.

Unallocated and Other Items

(millions of Canadian dollars)		**2020**		2019
Operating loss of Panels operations[30]	**$**	**-**	$	(2.3)
Corporate costs	**$**	**(32.6)**	$	(33.6)
Finance expense, net	**$**	**(36.2)**	$	(57.5)
Foreign exchange gain (loss) on term debt and duty deposits recoverable, net	**$**	**(3.0)**	$	3.7
Loss on derivative financial instruments	**$**	**(4.1)**	$	(26.4)
Other income, net	**$**	**36.1**	$	9.6

[30] The Panels operations included the Company's PolarBoard oriented strand board ("OSB") plant and Tackama plywood plant which were sold in the fourth quarter of 2020. Prior to the sale both plants were non-operational through the 2020 and 2019 periods.

Corporate Costs

Corporate costs were $32.6 million in 2020, down $1.0 million from 2019, as reduced legal and consulting costs in the current year, largely due to the Vida acquisition and Great Pacific Capital Corp. non-binding proposal in the comparative period, were combined with lower corporate office and general administrative expenses as a result COVID-19 cost reduction initiatives, offset in part by higher incentive expenses related to the marked improvement in lumber segment earnings in 2020.

Finance Expense, Net

Net finance expense for 2020 was $36.2 million, down $21.3 million from 2019, primarily reflecting an increase in accrued interest income on recoverable duty deposits, as a result of the finalization of CVD and ADD rates for POR1, and, to a lesser extent, lower interest expense following the repayments of amounts drawn on the Company's operating loan facilities in the prior year to finance the Vida and Elliott acquisitions. See the "Liquidity and Financial Requirements" and "Countervailing and Anti-Dumping Duties" sections for further discussion.

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

In 2020, the Company recognized a foreign exchange gain of $4.2 million on its US-dollar term debt held by Canadian entities, offset by a $7.2 million loss on US-denominated duty deposits receivable, both due to the strengthening of the Canadian dollar at the close of 2020 relative to the exchange rate at the close of 2019 (see further discussion on term debt in the "Liquidity and Financial Requirements" section).

Loss on Derivative Financial Instruments

At times, the Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in lumber prices, energy costs, interest and foreign exchange rates. In 2020, the Company recorded a net loss of $4.1 million (2019 – net loss of $26.4 million) in relation to its derivative financial instruments, which principally reflected mark-to-market losses realized on lumber futures contracts, offset in part, by mark-to-market gains on foreign exchange forward contracts (see further discussion in the "Liquidity and Financial Requirements" and "Derivative Financial Instruments" sections).

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

(millions of Canadian dollars)		**2020**		2019
Interest rate swaps	**$**	**(0.4)**	$	-
Lumber futures		**(7.0)**	$	5.7
Foreign exchange forward contracts	**$**	**3.3**	$	(32.1)
Loss on derivative financial instruments	**$**	**(4.1)**	$	(26.4)

During the year ended December 31, 2020 a loss of $44.6 million (2019 – gain of $3.9 million) was recognized in other equity on the Company's consolidated balance sheet following remeasurement of the put liability, largely reflecting record annual results for the Company's European SPF operations in 2020.

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

Other Income, net

Other income, net of $36.1 million in 2020 increased $26.5 million from 2019 principally reflecting the receipt of insurance proceeds related to Northwood pulp mill's RB5 outage in 2018, offset in part by unfavourable foreign exchange movements on US-dollar denominated cash and receivables of Canadian operations. In 2019, other income, net of $9.6 million reflected the receipt of $8.0 million in net insurance proceeds related to a kiln fire at the Company's Urbana sawmill in the US South in August of 2018, offset in part by unfavourable foreign exchange movements on US-dollar denominated cash and receivables of Canadian operations.

Income Tax Recovery (Expense)

The Company recorded an income tax expense of $160.2 million in 2020, compared to a recovery of $95.2 million in 2019, with an overall effective tax rate of approximately 22% (2019 - 26%).

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

(millions of Canadian dollars)		2020		2019
Net income (loss) before income taxes	**$**	**720.1**	$	(364.9)
Income tax recovery (expense) at statutory rate of 27% (2019 – 27%)	**$**	**(194.4)**	$	98.5
Add (deduct):				
Non-taxable income (loss) related to non-controlling interests		**(0.2)**		0.1
Entities with different income tax rates and other tax adjustments		**33.7**		1.1
Permanent difference from capital gains and losses and other non-deductible items		**0.7**		(4.5)
Income tax recovery (expense)	**$**	**(160.2)**	$	95.2

In addition to the amounts recorded in net income (loss), a tax expense of $3.3 million was recorded to other comprehensive income (loss) in relation to actuarial gains, net, on the defined benefit plans in 2020 (December 31, 2019 – expense of $4.4 million).

Other Comprehensive Income (Loss)

(millions of Canadian dollars)		2020		2019
Defined benefit plan actuarial gains, net of tax	**$**	**8.9**	$	11.8
Foreign exchange translation differences of foreign operations, net of tax		**53.8**		(39.6)
Other comprehensive income (loss), net of tax	**$**	**62.7**	$	(27.8)

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

For 2020, a gain of $12.2 million (before-tax) was recorded to other comprehensive income (loss) related to changes in the valuation of the Company's employee future benefits plans, as a return on plan assets greater than the discount rate, and to a lesser extent, favourable actuarial experience adjustments, more than offset losses associated with a 0.3% decrease in the discount rate used to value the employee future benefit plans.

In 2019, a gain of $16.2 million (before-tax) was recorded to other comprehensive income (loss), as losses on the Company's defined benefit pension plans were more than offset by gains on other non-pension post-employment benefits. Gains on the Company's non-pension post-employment benefits primarily related to a 50% reduction in Medical Services Plan ("MSP") premiums following a change in legislation in BC. The losses associated with the defined benefit pension plans principally reflected unfavourable actuarial experience adjustments and a 0.6% reduction in the discount rate in 2019, offset in part by a return on plan assets greater than the discount rate.

In 2019 and 2020, no buy-in annuities were purchased by the Company. As at December 31, 2020, the plan holds $429.7 million of buy-in annuities purchased prior to 2019. Future cash flows from the annuities will match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations.

After taking into account the impact of annuities, 49% of the change to the defined benefit pension plans is fully offset against changes in discount rates and longevity risk (potential increases in life expectancy of plan members) through buy-in annuities, and a further 13% is partially offset through the plan's investment in debt securities.

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

The Company recorded an after-tax gain of $53.8 million in other comprehensive income (loss) in 2020 related to foreign exchange differences for foreign operations, largely reflecting a weaker Canadian dollar through the majority of 2020 relative to the SEK, offset by a stronger Canadian dollar relative to the US-dollar towards the end of the year, compared to one year earlier. This compared to an after-tax loss of $39.6 million in 2019 resulting from a strengthening Canadian dollar relative to the SEK and US-dollar.

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's financial position as at December 31, 2020 and 2019:

(millions of Canadian dollars, except for ratios)	2020	2019
Cash and cash equivalents	**$ 419.2**	$ 60.1
Operating working capital	**578.5**	433.9
Current portion of deferred reforestation obligations	**(52.9)**	(51.0)
Net working capital	**944.8**	443.0
Property, plant and equipment	**1,976.1**	1,974.5
Right-of-use assets	**79.3**	68.5
Timber licenses	**431.3**	445.7
Goodwill and other intangible assets	**543.5**	447.3
Retirement benefit surplus	**9.5**	5.9
Long-term investments and other	**268.4**	173.7
	$ 4,252.9	$ 3,558.6
Term debt (long-term portion)	**$ 662.9**	$ 681.7
Retirement benefit obligations	**233.4**	237.0
Lease obligations	**60.5**	50.9
Deferred reforestation obligations (long-term portion)	**61.8**	56.3
Other long-term liabilities	**35.0**	32.9
Put liability	**170.0**	111.9
Deferred income taxes, net	**395.6**	319.0
Non-controlling interests	**426.2**	423.6
Equity attributable to shareholders of Company	**2,207.5**	1,645.3
	$ 4,252.9	$ 3,558.6
Ratio of current assets to current liabilities	**2.1 : 1**	1.5 : 1
Net debt to total capitalization[31]	**9.3%**	32.9%
Cumulative duty deposits paid	**$ 594.0**	$ 421.4

[31] Net debt to total capitalization is equal to net debt divided by net capitalization. Net debt is equal to interest-bearing debt, excluding lease obligations, less cash and cash equivalents on hand. Net capitalization is equal to net debt plus total equity.

The ratio of current assets to current liabilities at the end of 2020 was 2.1:1 compared to 1.5:1 at the end of 2019, as a material uplift in operating results resulted in a significant increase in the Company's cash balance and, to a lesser extent, higher trade accounts receivable balance and reduced current liabilities. Lower current liabilities in 2020 compared to 2019 largely reflected the repayment of amounts drawn on the Company's operating line facilities in the prior year to finance the Vida and Elliott acquisitions, partially offset by an increase in trade payables in the current year.

The Company's net debt to capitalization was 9.3% at December 31, 2020 (December 31, 2019 – 32.9%) and principally reflected the substantial increase in cash earnings, combined with lower capital spending and the repayment of the Company's operating loan and term debt facilities following the aforementioned acquisitions in the prior year.

In 2020, the Company continued to pay cash deposits on Canadian lumber exports destined to the US as a result of the imposition of duties by the US DOC in the latter half 2017. As of December 31, 2020, the Company had paid cumulative duty deposits of $594.0 million (December 31, 2019 - $421.4 million). Further discussion on CVD and ADD is provided in the "Countervailing and Anti-Dumping Duties" section of this document.

CHANGES IN FINANCIAL POSITION

At the end of 2020, Canfor had $419.2 million of cash and cash equivalents.

(millions of Canadian dollars)		2020		2019
Increase (decrease) in cash and cash equivalents[32]	**$**	**363.7**	$	(194.0)
Operating activities	**$**	**1,073.6**	$	200.7
Financing activities	**$**	**(463.0)**	$	549.9
Investing activities	**$**	**(246.9)**	$	(944.6)

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

The changes in the components of these cash flows during 2020 are discussed in the following sections.

Operating Activities

For the 2020 year, Canfor generated cash from operations of $1,073.6 million, up $872.9 million from cash generated of $200.7 million in the previous year. The increase in operating cash flows was primarily due to materially higher cash earnings in 2020, and, to a lesser extent, the receipt of income tax refunds in the current year, more than offsetting unfavourable movements in non-cash working capital. The latter principally reflected higher accounts receivable balances, driven by an uplift in benchmark pricing towards the end of the year, combined with an increase in finished lumber and log inventories on hand at year end, partially offset by a timing-related increase in accounts payable and accrued liabilities. Cash duty deposits paid in 2020 were $172.6 million compared to $137.4 million in the prior year.

Financing Activities

Financing activities in 2020 used cash of $463.0 million compared to cash generated of $549.9 million in 2019. The increase in cash used in 2020 principally reflected repayments of amounts drawn on the Company's operating loan and term debt facilities in the prior year to finance the Elliott and Vida acquisitions, following significantly improved cash earnings in the current period. Cash distributions of $13.2 million to non-controlling shareholders in 2020 were down $14.6 million from 2019 largely as a result of the COVID-19 and market-related suspension of CPPI's dividend in the first quarter of 2020, offset in part by distributions to Vida's non-controlling shareholders.

Financing activities in 2019 primarily consisted of the draw-down of the Company's operating loan and term debt facilities used to finance acquisitions in the first half of 2019, and to service working capital requirements thereafter, offset in part by increased interest payments associated with the Company's increased borrowings and distributions to non-controlling shareholders.

Investing Activities

In 2020, the Company used net cash for investing activities of $246.9 million, compared to $944.6 million in 2019. The significant decrease was primarily attributable to the acquisition of Vida in the prior year, combined with reduced capital expenditures in the current year. Investing activities for 2020 included proceeds from sale of the Company's Vavenby forest tenure and sawmill assets in the current period (see further discussions in the "Assets Held for Sale and Restructuring Costs" section later in this document), offset by the second phase (51%) purchase of Elliott in May 2020 (see further discussions in the "Phased Acquisition of Elliott" section later in this document) and Vida's acquisition of Bergs sawmill assets in September 2020 (see further discussions in the "Acquisition of Bergs Sawmill Assets" section later in this document).

Additions to property, plant and equipment totaled $201.5 million in 2020, down $101.3 million from 2019. Most of this decrease relates to COVID-19 cost containment measures implemented across the Canfor business in 2020 and to a lesser extent, more challenging lead times for key equipment.

In the lumber segment, although capital deployed in Western Canada was primarily comprised of maintenance-of-business expenditures in the current period, spend at the Company's sawmill operations in the US South, specifically at the Company's Fulton and Camden sawmills, largely reflected the US$125 million organic growth program.

In the pulp and paper segment, capital expenditures of $73.3 million in 2020 principally comprised the completion of the construction of a new water treatment plant servicing CPPI's PG and Intercontinental pulp mills, as well as upper furnace upgrades and the lower furnace replacement at Northwood's RB5.

LIQUIDITY AND FINANCIAL REQUIREMENTS

Operating Loans

Operating Loans - Consolidated

At December 31, 2020, on a consolidated basis, the Company had cash of $419.2 million, with $12.3 million drawn on its operating loan facilities, and an additional $80.1 million reserved for several standby letters of credit. Total available undrawn operating loans at year end were $938.6 million, including the undrawn committed revolving facility and undrawn facilities for letters of credit.

Operating Loans – Canfor, excluding Vida and CPPI

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

On March 5, 2019, Canfor, excluding Vida and CPPI, entered into a committed revolving credit facility of $100.0 million with a maturity date of February 28, 2020. On October 30, 2019, the maturity date of the committed revolving facility was extended to October 30, 2020. On June 17, 2020, the maturity date of the committed revolving facility was further extended to June 16, 2021 and the principal was increased by $100.0 to $200.0 million. Terms of the revolving facility are largely consistent with those of Canfor's existing committed operating loan facility.

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

As at December 31, 2020, Canfor, excluding Vida and CPPI, had operating loan facilities totaling $820.0 million, with no amounts drawn on its principal committed operating loan facility or committed revolving credit facility, and $67.2 million reserved for several standby letters of credit, the majority of which related to unregistered pension plans, leaving $752.8 million available and undrawn on its operating loan facilities at the end of the year.

Operating Loans – Vida

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 1.0% to 1.3%. Vida also has separate overdraft facilities with fixed interest rates ranging from 1.7% to 4.7%. Vida's operating loan facilities have certain financial covenants including minimum equity and interest coverage ratios.

At December 31, 2020, Vida had $12.3 million drawn on its $101.0 million operating loan facilities, leaving $88.7 million available and undrawn at the end of the year.

Operating Loans – CPPI

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

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

At December 31, 2020, CPPI had no amounts drawn on its $110.0 million operating loan facility, with $12.9 million reserved for several standby letters of credit under the operating loan facility, leaving $97.1 million available and undrawn on its operating loan facility at the end of the year.

Term Debt

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

On February 25, 2019, Canfor, excluding Vida and CPPI, drew the remaining $100.0 million from its Canadian dollar floating interest rate term debt facility, and the remaining US$100.0 million from its US-dollar floating interest rate term debt facility, increasing the debt balance to US$200.0 million. The increase in debt levels was to finance the Vida acquisition, first phase purchase of Elliott, and to service working capital requirements.

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

Debt Covenants

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

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

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

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

Management reviews results and forecasts in monitoring the Company's compliance with these covenant requirements. Canfor, Vida and CPPI were fully in compliance with all of debt covenants for the year ended December 31, 2020 and expect to remain so for the foreseeable future.

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

Normal Course Issuer Bid

On March 6, 2020, the Company's normal course issuer bid expired and was not renewed. In 2019 and 2020, no shares were purchased under Canfor's Normal Course Issuer Bid.

Under a separate normal course issuer bid, in 2019, CPPI purchased 17,200 common shares at an average price of $10.67 per common share. On March 6, 2020, CPPI's normal course issuer bid also expired and was not renewed.

As at December 31, 2020 and February 24, 2021 there were 125,219,400 common shares of the Company outstanding, and Canfor's ownership interest in CPPI and Vida was 54.8% and 70.0%, respectively (December 31, 2019 – 54.8% and 70.0%).

Acquisition of Bergs Sawmill Assets

On September 1, 2020, the Company's 70% owned subsidiary, Vida, completed the purchase of sawmill assets from Bergs for $45.6 million (303 million SEK), plus working capital and other adjustments of $13.1 million (87 million SEK). The sawmills (three operating and one idled) are located in southern Sweden and add 215 million board feet of spruce and pine products to Vida's annual capacity. The acquisition of 100% of the sawmill assets, which included the retention of Bergs' employees, was accounted for as a business combination in Canfor's lumber segment.

Further details on the acquisition are provided under Note 27(a) of Canfor's consolidated financial statements.

Phased Acquisition of Elliott

On May 31, 2019, the Company completed the first of a two-phase purchase of Elliott with an aggregate purchase price of US$110.5 million (paid in three instalments), plus a net working capital adjustment of $4.1 million (US$3.1 million). Elliott is located in Estill, South Carolina, and adds 210 million board feet of high-value SYP lumber production capacity. The first phase (49%) purchase of $52.0 million (US$38.5 million, the first instalment) was recognized as an equity investment, accounted for under the equity method.

On May 31, 2020, Canfor completed the second phase (51%) purchase for $50.4 million (US$37.0 million, the second instalment), bringing its ownership interest in Elliott to 100%. As a result, the equity investment was derecognized, and Elliott's results were consolidated into Canfor's lumber segment on the May 31, 2020 acquisition date.

Subsequent to year-end, on February 19, 2021, the Company paid $38.2 million (US$30.3 million, the third instalment), plus interest of $0.2 million (US$0.1 million), to settle the remaining consideration payable in connection with the purchase of Elliott. Further details on the phased acquisition of Elliott are provided under Note 27(b) of Canfor's consolidated financial statements.

Assets Held for Sale and Restructuring Costs

During the first quarter of 2020, the Company completed the sale of its Vavenby forest tenure to Interfor for net proceeds of $56.5 million after working capital and other adjustments. In addition, on August 20, 2020, the Company completed the sale of the remaining Vavenby sawmill assets and liabilities to a third party for proceeds of $6.0 million (to be paid in instalments).

During the second quarter of 2020, the Company announced its plans to permanently close its Isle Pierre sawmill effective July 2020. As a result of the announced closure, the assets were assessed for impairment in the second quarter of 2020, resulting in the recognition of a $5.4 million loss (before tax) in the Company's consolidated statement of income (loss). During the third quarter of 2020, the related assets and liabilities were reclassified to held for sale, with no further impairment adjustment required.

Due primarily to the aforementioned sale of Vavenby and closure of Isle Pierre, restructuring costs of $15.4 million have been recognized in the Company's consolidated statement of income (loss) in 2020.

During the fourth quarter of 2020, the Company completed the sale of its idled PolarBoard OSB plant and its permanently closed Tackama plywood plant to Peak for proceeds of $10.0 million (paid in instalments over two years). Also during the fourth quarter of 2020, the Company entered into an agreement to sell its Fort Nelson forest tenure to Peak for $30.0 million (to be paid over multiple years). The sale is currently anticipated to close in the first half of 2021 and is subject to customary closing conditions, including the consent of the Minister of Forests.

Further details related to assets held for sale and restructuring costs are provided under Note 16 of Canfor's consolidated financial statements.

Countervailing and Anti-Dumping Duties

In 2016, a petition was filed by the US Lumber Coalition to the DOC and the US International Trade Commission ("ITC") alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers. Canfor was selected by the DOC as a "mandatory respondent" to the countervailing and anti-dumping investigations and is subject to company specific countervailing and anti-dumping duties. As a result of the DOC's investigation, CVD and ADD were imposed on the Company's Canadian lumber exports to the US beginning in 2017, with cash deposits posted at an ADD rate of 7.28% and CVD rate of 13.24%, resulting in a combined cash deposit rate of 20.52% from 2017 through to November 2020, and at a combined cash deposit rate of 4.62% for the balance of 2020.

Canfor and other Canadian forest product companies, the Federal Government and Canadian Provincial Governments continue to categorically deny the US allegations and strongly disagree with the current countervailing and anti-dumping determinations made by the DOC. Canada has proceeded with legal challenges under the United States-Mexico-Canada Agreement ("US-Mexico-Canada Agreement") and through the World Trade Organization ("WTO"), where Canadian litigation has proven successful in the past.

First Period of Review

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

In early 2020, the DOC announced the preliminary results for the first period of review and on November 24, 2020, finalized the rates. The Company's final CVD rate was determined to be 2.94% for 2017 and 2.63% for 2018 (versus a cash deposit rate of 13.24%), while the final ADD rate was 1.99% for the entire first period of review (versus a cash deposit rate of 7.28% and estimated accrual rate of 2.6%). The DOC's final combined duty and cash deposit rate of 4.62% applies to the Company's Canadian lumber shipments destined to the US from December 1, 2020 until completion of the administrative review for the second period of review (anticipated in 2021).

A summary of the various combined rates is as follows:

Time Period	Deposit Rate	Accrued Rate	Final DOC Rate	Description
April 2017 – December 2018	20.52%	15.84%	4.62%	POR1
January 2019 – December 2019	20.52%	29.24%	Anticipated in 2021	POR2
January 2020 – November 30, 2020	20.52%	5.0%[33]	Anticipated in 2022	POR3
December 2020	4.62%		Anticipated in 2022	New POR1 deposit rate applicable to POR3

[33] Includes Canfor's estimated ADD accrual rate determined by applying DOC methodology to current sales and cost data.

For the Company, the difference between the combined cash deposit rate of 20.52% and the DOC's final combined rate of 4.62% for POR1 was $214.2 million (US$165.0 million). After deducting the recovery booked for accounting purposes for POR1 (accrual rate of 15.84%, comprised of the CVD cash deposit rate of 13.24% and estimated ADD accrual rate of 2.6%), an additional recovery of $140.5 million (US$106.6 million) was recognized in the Company's consolidated statement of income (loss) for the year ended December 31, 2020.

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

Second and Third Periods of Review ("POR2" and "POR3")

The second period of review is based on sales and cost data in 2019. While the Company was unable to estimate an applicable CVD rate separate from the cash deposit rate for 2019, ADD was expensed at an estimated rate of 16.0%, resulting in a combined rate of 29.24% (versus the cash deposit rate of 20.52%). In the second quarter of 2020, Canfor was selected as a "mandatory respondent" to the CVD and ADD investigations for the second period of review and will therefore be subject to company specific duties for this period. The administrative review for the second period of review is currently anticipated to be completed in 2021.

On January 1, 2020, the Company moved into the third period of review, which is based on sales and cost data in 2020. Consistent with POR2, while the Company was unable to estimate an applicable CVD rate separate from the cash deposit rate, ADD was expensed at an estimated rate of 5.0% for POR3, resulting in a combined duty rate of 18.24% (versus the cash deposit rate of 20.52% from January 1 to November 30, 2020 and 4.62% for December 2020).

Summary

As at December 31, 2020, Canfor has paid cumulative cash deposits of $594.0 million. For accounting purposes, a net duty recoverable of $199.9 million is included on the Company's consolidated balance sheet reflecting differences between the cash deposit rates and the Company's combined accrual rates for each period of review (POR1: 4.62% (after adjusting for the final rates issued by the DOC in November 2020), POR2: 29.24%, and POR3: 18.24%), including interest.

For the year-ended December 31, 2020 the Company recorded a net duty expense of $18.8 million, comprised of the following:

Effective duties (millions of Canadian dollars)		**2020**
Cash deposits paid in 2020 (Jan 1 - Nov 30: 20.52%, Dec: 4.62%)	**$**	**172.6**
Duty recovery attributable to POR3 – ADD (5% versus cash deposit rate[34])[35]		**(13.3)**
Duty recovery attributable to POR1 (2017) – CVD (2.94% versus 13.24%)[36] and ADD (1.99% versus 2.6%)[37]		**(31.0)**
Duty recovery attributable to POR1 (2018) – CVD (2.63% versus 13.24%)[36] and ADD (1.99% versus 2.6%)[37]		**(109.5)**
Duty expense, net	**$**	**18.8**

[34] ADD cash deposit rate of 7.28% applicable from January - November 30, 2020 and of 1.99% for December 2020.

[35] Reflects Canfor's estimated ADD accrual rate for POR3 determined by applying DOC methodology to sales and cost data in 2020.

[36] Reflects the DOC's initial CVD cash deposit rate of 13.24% (versus the DOC's final CVD rate of 2.94% for 2017 and 2.63% for 2018) determined by applying the DOC methodology to sales and cost data for 2017 and 2018.

[37] Reflects Canfor's estimated ADD accrual rate of 2.6% for POR1 (versus the DOC's final ADD cash deposit rate of 1.99%) determined by applying DOC methodology to sales and cost data from July 2017 to December 2018.

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

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

2021 Projected Capital Spending and Debt Repayments

Based on its current outlook, assuming no deterioration in market conditions during the year, the Company anticipates it will invest approximately $370.0 million in 2021, which will consist primarily of various improvement projects and maintenance-of-business expenditures, with proportionately more capital being allocated to the high-returning discretionary projects in US South and European lumber regions focused on optimization and automation of the manufacturing process as well as adding additional drying capacity. There are no scheduled term debt payments for the Company, excluding Vida, scheduled for 2021. Canfor has sufficient liquidity in its cash reserves and operating loans to finance its planned investments and support its lumber and pulp operations during 2021.

Derivative Financial Instruments

As at December 31, 2020, the Company had the following significant derivative financial instruments outstanding:

a. Futures contracts for the sale of lumber with a total notional amount of 8.6 MMfbm at December 31, 2020. There were unrealized losses of $0.1 million at December 31, 2020 on these contracts.

	As at December 31, 2020	
Maturity Date	**Notional Amount**	**Average Rate**
Lumber Futures Contracts	(MMfbm)	(US-dollars per Mfbm)
Future sales contracts		
0-6 months	**8.6**	**$654.5**

b. Although Vida primarily transacts in its functional currency of SEK, some of its products are sold in US-dollars, British Pounds ("GBP"), Australian dollars ("AUD") and Euros ("EUR"). In addition, Vida holds US, GBP, AUD and EUR denominated operating loan and term debt facilities and limits its exposure to foreign exchange risk using forward foreign exchange contracts and foreign exchange options.

   At December 31, 2020, the following forward foreign exchange contracts held by Vida, were outstanding:

		As at December 31, 2020	
Maturity Date	**Notional Amount Currency**	**Notional Amount**	**Exchange Rates**
Forward Foreign Exchange Contracts		(millions)	(rate of SEK to notional currency)
0-3 months	GBP	**£ 15.0**	**11.45**
0-6 months	USD	**$ 29.0**	**8.63**
0-3 months	EUR	**€ 2.0**	**10.41**

As at December 31, 2020, Vida also held foreign exchange options with notional amounts of EUR1.0 million and US$3.0 million and maturity dates ranging from 0 to 3 months.

At times, Canfor also enters into commodity swaps and oil collars to reduce its exposure to interest rate risk, energy price risk and diesel purchases, respectively. At December 31, 2020, with the exception of three fixed interest rate swaps, the Company had no other swaps or collars outstanding.

Other Commitments

The following table summarizes Canfor's term debt obligations excluding interest at December 31, 2020 for each of the next five years and thereafter:

(millions of Canadian dollars)	2021	2022	2023	2024	2025	Thereafter	Total
Term debt obligations	$ 13.9	$ 50.6	$ 42.6	$ 267.5	$ 42.5	$ 259.7	$ 676.8

Interest payments include interest of 4.4% on the Company's US$100.0 million fixed-rate term loan and interest of 1.3% on the Company's US$3.9 million debt to finance certain capital projects at its US sawmills. Interest is also payable on floating rate debt. Interest payments have been excluded from the above commitments.

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

- Other contractual commitments total $77.8 million, which include commitments for the construction of capital assets and other working capital items. Commitments related to leases of property, plant and equipment are detailed in Note 6 of Canfor's 2020 consolidated financial statements.
- Deferred reforestation, for which a liability of $114.7 million has been recorded at December 31, 2020. The reforestation liability is a fluctuating obligation, based on the area harvested. The future cash outflows are a function of the actual costs of silviculture programs and of harvesting and are based on, among other things, the location of the harvesting and the activities necessary to adequately stock harvested areas and achieve a "free-to-grow" state.
- Obligations to pay pension and other post-employment benefits, for which the net liability for accounting purposes at December 31, 2020 was $223.9 million. As at December 31, 2020, Canfor estimates that total contribution payments of $10.9 million will be made to its defined benefit plans in 2021.
- CPPI has energy purchase agreements with a BC energy company (the "Energy Agreements") for all three of CPPI's kraft pulp mills. Two of these agreements are for the sale of incremental electrical energy and the third agreement is for load displacement. One of these Energy Agreements included incentive funding from a BC energy company to support capital investments for the new turbo-generator. All agreements include performance guarantees to ensure minimum contractual amounts of electricity are generated, with penalty clauses if they are not met. As part of these commitments, CPPI has entered into standby letters of credit for these guarantees. The standby letters of credit have variable expiry dates, depending on the capital invested and the length of the Energy Agreement involved. As at December 31, 2020, CPPI had posted $2.2 million of standby letters of credit under these agreements, and had no repayment obligations under the terms of any of these agreements.
- Purchase obligations and contractual obligations in the normal course of business. Purchase obligations of a more substantial dollar amount generally relate to the pulp business and are subject to "force majeure" clauses. In these instances, actual volumes purchased may vary significantly from contracted amounts depending on Canfor's requirements in any given year.

TRANSACTIONS WITH RELATED PARTIES

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

The Jim Pattison Group is Canfor's largest shareholder with an ownership interest of 50.9% at December 31, 2020. During 2020, subsidiaries owned by The Jim Pattison Group provided lease, insurance and other services to Canfor totaling $4.9 million with no amounts related to these transactions outstanding at December 31, 2020.

During 2020, CPPI sold paper to subsidiaries owned by the Jim Pattison Group totaling $3.0 million. CPPI also made purchases from subsidiaries owned by the Jim Pattison group totaling $0.7 million. No amounts related to these sales or purchases were outstanding as at December 31, 2020.

Additional details on related party transactions are contained in Note 22 to Canfor's 2020 consolidated financial statements.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Sales and income (millions of Canadian dollars)								
Sales	**$ 1,618.0**	**$ 1,550.4**	**$ 1,115.3**	**$ 1,170.7**	$ 1,105.2	$ 1,091.4	$ 1,313.0	$ 1,148.7
Operating income (loss)	**$ 419.6**	**$ 299.6**	**$ 96.9**	**$ (88.8)**	$ (59.6)	$ (120.3)	$ (50.1)	$ (64.3)
Net income (loss)	**$ 346.7**	**$ 216.0**	**$ 62.4**	**$ (65.2)**	$ (46.1)	$ (103.9)	$ (40.7)	$ (79.0)
Shareholder net income (loss)	**$ 335.6**	**$ 218.1**	**$ 60.7**	**$ (70.0)**	$ (39.1)	$ (88.5)	$ (48.8)	$ (86.6)
Per common share (Canadian dollars)								
Shareholder net income (loss) – basic and diluted	**$ 2.68**	**$ 1.74**	**$ 0.48**	**$ (0.56)**	$ (0.31)	$ (0.71)	$ (0.39)	$ (0.69)
Book value[38]	**$ 17.63**	**$ 15.04**	**$ 13.51**	**$ 13.04**	$ 13.14	$ 13.33	$ 14.15	$ 14.71
Statistics								
Lumber shipments (MMfbm)[39]	**1,560**	**1,371**	**1,154**	**1,251**	1,224	1,232	1,474	1,190
Pulp shipments (000 mt)	**258**	**249**	**248**	**290**	267	213	288	259
Average exchange rate – US$/Cdn$	**$ 0.767**	**$ 0.751**	**$ 0.722**	**$ 0.744**	$ 0.758	$ 0.757	$ 0.748	$ 0.752
Average exchange rate – SEK/Cdn$	**6.608**	**6.650**	**6.983**	**7.203**	7.281	7.262	7.059	6.905
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 700**	**$ 768**	**$ 357**	**$ 399**	$ 380	$ 356	$ 333	$ 372
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 777**	**$ 782**	**$ 463**	**$ 386**	$ 406	$ 410	$ 393	$ 416
Average European indicative SPF lumber price in SEK[40]	**4,115**	**3,414**	**3,254**	**3,352**	3,540	3,652	4,003	4,111
Average NBSK pulp list price delivered to China (US$)[41]	**$ 637**	**$ 572**	**$ 572**	**$ 573**	$ 563	$ 555	$ 630	$ 700

[38] Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.
[39] Canfor produced lumber, including lumber purchased for remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.
[40] European indicative lumber price is an internally generated benchmark based on delivered price to the largest continental market.
[41] Effective January 1, 2020, all RISI China market pricing has changed from "Delivered to China – Effective list price" to "Delivered to China – Net price" as distributed through Fastmarkets RISI.

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

(millions of Canadian dollars)	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Operating income (loss) by segment:								
Lumber	**$ 461.0**	**$ 336.7**	**$ 107.4**	**$ (89.1)**	$ (27.5)	$ (66.5)	$ (60.9)	$ (72.5)
Pulp and Paper	**$ (28.3)**	**$ (27.6)**	**$ (6.3)**	**$ 6.1**	$ (23.5)	$ (44.0)	$ 18.4	$ 18.1
Unallocated and Other	**$ (13.1)**	**$ (9.5)**	**$ (4.2)**	**$ (5.8)**	$ (8.6)	$ (9.8)	$ (7.6)	$ (9.9)
Total operating income (loss)	**$ 419.6**	**$ 299.6**	**$ 96.9**	**$ (88.8)**	$ (59.6)	$ (120.3)	$ (50.1)	$ (64.3)
Add: Amortization[42]	**$ 100.4**	**$ 93.5**	**$ 92.6**	**$ 94.4**	$ 95.2	$ 92.9	$ 93.2	$ 80.9
Total operating income (loss) before amortization	**$ 520.0**	**$ 393.1**	**$ 189.5**	**$ 5.6**	$ 35.6	$ (27.4)	$ 43.1	$ 16.6
Add (deduct):								
Working capital movements	**$ (21.2)**	**$ 77.3**	**$ 54.0**	**$ (76.5)**	$ 73.3	$ 63.1	$ 141.3	$ (163.3)
Restructuring, mill closure and severance costs paid	**$ (2.0)**	**$ (7.0)**	**$ (2.0)**	**$ (2.0)**	$ (3.5)	$ (8.5)	$ -	$ -
Defined benefit pension plan contributions, net	**$ (2.4)**	**$ (2.0)**	**$ (3.8)**	**$ (5.3)**	$ (5.5)	$ (5.7)	$ (6.0)	$ (4.7)
Income taxes received (paid), net	**$ (14.5)**	**$ (2.3)**	**$ 42.5**	**$ 28.8**	$ (4.0)	$ (6.1)	$ 8.2	$ (9.6)
Adjustment to accrued duties[43]	**$ (142.0)**	**$ (13.5)**	**$ (9.6)**	**$ 11.3**	$ 10.4	$ 19.9	$ 7.9	$ 3.1
Other operating cash flows, net[44]	**$ 22.2**	**$ (22.9)**	**$ 27.0**	**$ 31.3**	$ 20.6	$ (17.3)	$ 10.5	$ 8.7
Cash from (used in) operating activities	**$ 360.1**	**$ 422.7**	**$ 297.6**	**$ (6.8)**	$ 126.9	$ 18.0	$ 205.0	$ (149.2)
Add (deduct):								
Capital additions, net	**$ (93.9)**	**$ (23.1)**	**$ (31.4)**	**$ (53.1)**	$ (69.7)	$ (76.4)	$ (82.0)	$ (74.7)
Finance expenses paid	**$ (10.3)**	**$ (8.8)**	**$ (13.7)**	**$ (13.3)**	$ (15.4)	$ (12.7)	$ (14.4)	$ (7.2)
Proceeds from (repayments of) of term debt, net	**$ (8.3)**	**$ (0.1)**	**$ (0.4)**	**$ 0.6**	$ (0.6)	$ 49.8	$ (0.2)	$ 231.5
Distributions paid to non-controlling interests	**$ (4.5)**	**$ (7.0)**	**$ -**	**$ (1.7)**	$ (10.2)	$ (2.1)	$ (10.5)	$ (5.0)
Consideration paid for Bergs sawmill assets	**$ -**	**$ (58.7)**	**$ -**	**$ -**	$ -	$ -	$ -	$ -
Proceeds on sale of Vavenby forest tenure	**$ -**	**$ -**	**$ -**	**$ 56.5**	$ -	$ -	$ -	$ -
Phased acquisition of Elliott, net of cash acquired, including term loan	**$ -**	**$ -**	**$ (44.6)**	**$ -**	$ (4.1)	$ -	$ (52.0)	$ -
Acquisition of Vida, net of cash acquired, including holdback	**$ -**	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -	$ (572.0)
Other, net[44]	**$ (14.5)**	**$ (7.9)**	**$ (4.8)**	**$ (1.8)**	$ (4.5)	$ (2.7)	$ (20.7)	$ (19.5)
Change in cash / operating loans	**$ 228.6**	**$ 317.1**	**$ 202.7**	**$ (19.6)**	$ 22.4	$ (26.1)	$ 25.2	$ (596.1)

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

THREE-YEAR COMPARATIVE REVIEW

(millions of Canadian dollars, except per share amounts)	2020	2019	2018
Sales	**$ 5,454.4**	$ 4,658.3	$ 5,044.4
Net income (loss)	**$ 559.9**	$ (269.7)	$ 439.0
Shareholder net income (loss)	**$ 544.4**	$ (263.0)	$ 354.9
Total assets	**$ 5,108.8**	$ 4,527.0	$ 3,845.1
Term debt	**$ 676.8**	$ 694.7	$ 408.4
Shareholder net income (loss) per share, basic and diluted	**$ 4.35**	$ (2.10)	$ 2.78

FOURTH QUARTER RESULTS

Overview of Operating Results

The Company reported shareholder net income for the fourth quarter of 2020 of $335.6 million, or $2.68 per share, compared to shareholder net income of $218.1 million, or $1.74 per share, for the third quarter of 2020 and a shareholder net loss of $39.1 million, or $0.31 per share, for the fourth quarter of 2019.

For the fourth quarter of 2020, the Company reported operating income of $419.6 million, $120.0 million higher than operating income of $299.6 million in the third quarter of 2020. Reported results for the fourth quarter of 2020 include a net duty recovery of $95.5 million, largely resulting from the finalization of CVD and ADD rates applicable to POR1, compared to a net duty expense of $50.7 million reported in the third quarter of 2020.

After adjusting for the aforementioned duty recovery and other one-time items, the Company's operating income was $321.1 million for the fourth quarter of 2020, compared to similarly adjusted operating income of $347.3 million for the third quarter of 2020.

Adjusted lumber segment operating income of $365.5 million for the fourth quarter of 2020 decreased $21.9 million from the third quarter of 2020, as record quarterly results for the Company's European SPF operations were more than offset by lower quarter-over-quarter earnings for the Company's SYP operations, which notwithstanding continued to generate near record-high results. Operating results for the Company's Western Canadian operations continued to be strong and were in line with the prior quarter.

Results for the fourth quarter of 2020 in the pulp and paper segment reflected continued soft market conditions and weak prices on pulp shipments as well as the capital-related downtime at Northwood. Compared to the third quarter of 2020, unit sales realizations were relatively unchanged, with a 2% stronger Canadian dollar offsetting a modest uplift in prices towards the end of the period; reduced production from the Northwood RB5 lower furnace rebuild mostly offset the impact of material production curtailments in the previous quarter. The lower furnace replacement was completed mid-January, as planned, with a total capital cost of approximately $27.0 million and total reduction in NBSK pulp production of 70,000 tonnes (60,000 tonnes in the current quarter and a further 10,000 tonnes in January 2021).

An overview of the results by business segment for the fourth quarter of 2020 compared to the third quarter of 2020 and fourth quarter of 2019 follows.

Lumber

Selected Financial Information and Statistics – Lumber

Summarized results for the Lumber segment for the fourth quarter of 2020, third quarter of 2020 and fourth quarter of 2019 were as follows:

(millions of Canadian dollars, unless otherwise noted)	Q4 2020	Q3 2020	Q4 2019
Sales[45]	**$ 1,380.2**	$ 1,324.1	$ 857.8
Operating income before amortization[45]	**$ 539.0**	$ 411.0	$ 43.7
Operating income (loss)[45]	**$ 461.0**	$ 336.7	$ (27.5)
Countervailing and anti-dumping duty deposits recoverable, net[46]	**$ (95.5)**	$ 50.7	$ 43.7
Inventory write-down recovery	**$ -**	$ -	$ (16.9)
Restructuring, mill closure and severance costs[47]	**$ -**	$ -	$ 3.3
Adjusted operating income	**$ 365.5**	$ 387.4	$ 2.6
Average Western SPF 2x4 #2 & Btr lumber price in US$[48]	**$ 700**	$ 768	$ 380
Average Western SPF 2x4 #2 & Btr lumber price in Cdn$[48]	**$ 911**	$ 1,022	$ 501
Average SYP 2x4 #2 lumber price in US$[49]	**$ 777**	$ 782	$ 406
Average SYP 2x4 #2 lumber price in Cdn$[49]	**$ 1,012**	$ 1,041	$ 536
Average European indicative SPF lumber price in SEK[50]	**4,115**	3,414	3,540
Average European indicative SPF lumber price in US$[50]	**$ 478**	$ 377	$ 336
Average European indicative SPF lumber price in Cdn$[50]	**$ 623**	$ 513	$ 486
US housing starts (thousand units SAAR)[51]	**1,588**	1,432	1,433
Production – Western SPF lumber (MMfbm)[52]	**697**	726	606
Production – SYP lumber (MMfbm) [52]	**433**	431	354
Production – European SPF lumber (MMfbm)[52]	**331**	261	286
Shipments – Western SPF lumber (MMfbm)[53]	**733**	667	624
Shipments – SYP lumber (MMfbm)[53]	**438**	429	342
Shipments – European SPF lumber (MMfbm)[53]	**389**	275	258

45 Q4 2020 includes sales of $282.0 million, operating income of $63.1 million and operating income before amortization of $82.7 million from European SPF lumber operations (Q3 2020 – sales of $233.1 million, operating income of $26.6 million and operating income before amortization of $44.7 million). Operating income from the European SPF operations in Q4 2020 includes $10.9 million (Q3 2020 - $10.8 million) in incremental amortization and other expenses driven by the purchase price allocation at acquisition date.

46 Adjusted for CVD and ADD expensed for accounting purposes.

47 Adjusted for restructuring, mill closure and severance costs, net, primarily related to closures and permanent or indefinite curtailments.

48 Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.); Average Western SPF 2x4 #2&Btr lumber price in Cdn$ calculated as average Western SPF 2x4 #2&Btr lumber price in US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average for the period.

49 Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.) Average SYP 2x4 #2 lumber price in Cdn$ calculated as average SYP 2x4 #2 lumber price in US$ multiplied by the average exchange rate – Cdn$ per US$1.00 according to Bank of Canada monthly average for the period.

50 European indicative lumber price is an internally generated benchmark based on delivered price to the largest continental market; Average European indicative SPF lumber price in US$ calculated as average European indicative lumber price in SEK multiplied by the average exchange rate – US$ per SEK1.00 according to Bank of Canada monthly average rate for the period; Average European indicative SPF lumber price in Cdn$ calculated as average European indicative lumber price in SEK multiplied by the average exchange rate – Cdn$ per SEK1.00 according to Bank of Canada monthly average rate for the period.

51 Source – US Census Bureau, seasonally adjusted annual rate ("SAAR").

52 Excluding production of trim blocks.

53 Canfor, Vida or Elliott produced lumber, including lumber purchased for remanufacture and engineered wood, excluding trim blocks, wholesale shipments and lumber sold on behalf of third parties.

Markets

During the fourth quarter of 2020, global lumber market fundamentals remained strong, with a sustained increase in North American demand over the traditionally slower season, particularly in December, further reducing already low inventory levels. The North American market continued to see strong new home construction activity, particularly single-family homes, which consume approximately three times the volume of lumber compared to multi-family units, and unusually high demand in the repair and remodeling sector in the current quarter. US housing starts, on a seasonally adjusted basis, averaged 1,588,000 units, up 11% from the previous quarter reflecting an 18% increase in single-family starts and a 10% decline in multi-family starts. In Canada, housing starts averaged 239,000 units on a seasonally adjusted basis, unchanged from the prior quarter.

Offshore lumber demand in Asia improved in the current quarter, particularly in Japan, as building activities in the region returned to more normal levels following quarantine delays earlier in the year. European and Scandinavian lumber demand continued to strengthen in the current quarter largely due to sustained growth in the repair and remodeling sector.

Sales

Sales for the lumber segment for the fourth quarter of 2020 were $1,380.2 million, a quarterly record-high, compared to $1,324.1 million for the previous quarter and $857.8 million for the fourth quarter of 2019. The 4% increase in sales revenue compared to the prior quarter largely reflected higher Western SPF and European SPF shipment volumes combined with higher Western SPF and, to a lesser extent, European SPF unit sales realizations, partially offset by a decline in SYP unit sales realizations. The 61% increase in sales revenue compared to the fourth quarter of 2019 was principally driven by substantial increases in benchmark lumber prices quarter-over-quarter, combined with increased in shipment volumes across all three of the Company's sawmill operating regions.

Total lumber shipments of 1.56 billion board feet were up 14% from the previous quarter as a backlog of orders tied to strong demand in North America in the third quarter of 2020 was alleviated in the current period as Western Canada rail constraints eased. A substantial increase in production at the Company's European operations in the current period combined with the incremental benefit of a full quarter of Bergs shipments in the current quarter, following its acquisition in September 2020, also contributed to the higher shipments.

Total lumber shipments were 27% higher than the fourth quarter of 2019, reflecting the aforementioned increased production quarter-over quarter, combined with a build in inventory levels in the comparative period.

The average benchmark North American Random Lengths Western SPF 2x4 #2&Btr price experienced extreme volatility through the fourth quarter of 2020. From an all-time high of US$955 per Mfbm at the end of September, prices in the current quarter initially fell to a low of US$530 per Mfbm at the end of October, before climbing steadily through November and posting significant gains in December, to end the year at US$920 per Mfbm. As a result of the pricing fluctuations through the current period, the Western SPF 2x4 #2&Btr price averaged US$700 per Mfbm for the fourth quarter of 2020, down US$68 per Mfbm, or 9%, from the previous quarter. The Company's Western SPF lumber unit sales realizations, however, increased moderately in the current quarter, as a favourable timing lag in shipments (versus orders) combined with improved offshore unit sales realizations and, to a lesser extent, a reduction in duties, more than offset the slightly stronger Canadian dollar.

The movement in the North American Random Lengths SYP East 2x4 #2 through the fourth quarter of 2020 was similar to that of Western SPF, dropping from a record-high of US$1,035 per Mfbm in early October 2020 to a low of US$585 per Mfbm in mid-November, before rebounding to US$1,035 per Mfbm at the end of the year and reaching a new all-time high of US$1,180 per Mfbm in early 2021. Notwithstanding the significant pricing volatility in the fourth quarter of 2020, the average SYP East 2x4 #2 was relatively flat quarter-over-quarter at US$777 per Mfbm, with the Company's overall SYP lumber unit sales realizations decreasing in line with pronounced declines for most wider width SYP dimension products compared to the prior quarter, mostly attributable to seasonal factors.

The average European indicative SPF lumber benchmark price at SEK4,115 per Mfbm, was up SEK701 per Mfbm, or 21%, from the previous quarter. The Company's European SPF lumber unit sales realizations for the fourth quarter of 2020 were modestly higher than the previous quarter principally reflecting this increase in European benchmark pricing and, to a lesser extent, a 1% weaker Canadian dollar (versus the SEK) offset in part by the aforementioned volatility in North American US-dollar benchmark pricing on shipments directed to the US.

Compared to the fourth quarter of 2019, the average North American Random Lengths Western SPF 2x4 #2&Btr price was up US$320 per Mfbm, or 84%, with similar substantial increases experienced in the Company's Western SPF lumber unit sales realizations. SYP lumber unit sales realizations saw notable increases quarter-over-quarter, as the average SYP East 2x4 #2 lumber price was up US$371 per Mfbm, or 91%, from the comparative period, with more moderated increases experienced in wider SYP dimensions. European SPF lumber unit sales realizations were moderately higher than the fourth quarter of 2019 reflecting a SEK575 per Mfbm, or 16%, increase in the average European indicative SPF benchmark lumber price and a 9% weakening of the Canadian dollar against the SEK.

Other revenues for the Company's lumber segment (which are primarily comprised of residual fibre, pulp log and pellets sales, as well as the Company's European operations' other related revenues) increased compared to the previous quarter largely due to the impact of the seasonal production downtime taken at the Company's European operations in the prior quarter, offset in part by a decline in residual fibre revenues in the current quarter in Western Canada and Europe. Compared to the fourth quarter of 2019, other revenues in Western Canada and the US South were broadly comparable quarter-over-quarter, and down slightly in the Company's European operations.

Operations

Total lumber production, at 1.46 billion board feet, was up 3% from the previous quarter largely driven by the Company's European operations where higher production volumes reflected increased operating days following the seasonal downtime taken in the prior period, improved productivity and the benefit of a full quarter of production from the recently acquired Bergs facilities. Production in the US South was in line with the previous quarter, while the Company's Western SPF operations saw a modest decline in production principally reflecting log profile shortages due to unseasonably mild and wet-weather impacts on harvesting and low levels of rough dry inventory.

Compared to the fourth quarter of 2019, lumber production was up 17%, largely due to market-related curtailments across the Company's Western SPF operations in the comparative period combined with the incremental capacity from the addition of Elliott and to a lesser extent, Bergs, increasing the production in the US South and Europe, respectively. Increased productivity in the US South following capital upgrades to the Company's Camden and Urbana sawmills late in 2019 and early 2020, also contributed to increased production in the current quarter.

Lumber unit manufacturing costs in the fourth quarter of 2020 were slightly higher than the previous quarter primarily reflecting the impact of lower production volumes in Western Canada and to a lesser extent, seasonally higher energy costs and increased log costs due to aforementioned wet-weather conditions in BC. These unfavourable drivers were largely offset by lower European lumber unit manufacturing costs, while US South lumber unit manufacturing costs were comparable quarter-over-quarter. Log costs in Europe and the US South remained broadly in line with the previous period.

Compared to the fourth quarter of 2019, lumber unit manufacturing costs improved slightly, largely due to the incremental effect of increased capacity in the US South. This was combined with reduced log costs in Europe, largely tied to increased available regional supply and, to a lesser extent, slightly lower log costs in Western Canada tied to reduced competition for purchased wood in the current period.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[54]

Summarized results for the Pulp and Paper segment for the fourth quarter of 2020, third quarter of 2020 and fourth quarter of 2019 were as follows:

(millions of Canadian dollars, unless otherwise noted)		**Q4 2020**		Q3 2020		Q4 2019
Sales	**$**	**237.8**	$	226.3	$	247.4
Operating income (loss) before amortization[55]	**$**	**(6.2)**	$	(8.7)	$	0.1
Operating loss	**$**	**(28.3)**	$	(27.6)	$	(23.5)
Average NBSK pulp price delivered to China – US$[56]	**$**	**637**	$	572	$	563
Average NBSK pulp price delivered to China – Cdn$[56]	**$**	**830**	$	761	$	743
Production – pulp (000 mt)		**233**		227		286
Production – paper (000 mt)		**36**		24		28
Shipments – pulp (000 mt)		**258**		249		267
Shipments – paper (000 mt)		**35**		27		26

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

[55] Amortization includes amortization of certain capitalized major maintenance costs.

[56] Effective January 1, 2020, all RISI China market pricing has changed from "Delivered to China – Effective list price" to "Delivered to China – Net price" as distributed through Fastmarkets RISI.

Markets

Global pulp prices edged upwards through October and November, but more solid increases were seen in December, particularly in China, driven largely by global logistic constraints and improving global pulp inventory levels combined with strong indicators from the Shanghai Futures Exchange on future pulp US-dollar list prices. As a result, NBSK pulp list prices to China averaged US$637 per tonne, as published by RISI, up US$65 per tonne from the previous quarter.

However, average US-dollar NBSK pulp list prices to North America at US$1,138 per tonne (before discounts, which were largely unchanged from the previous quarter) were broadly in line with the previous quarter.

Global softwood pulp producer inventory levels improved as the current quarter progressed and at 35 days[57] of supply in December 2020 (a decrease of 7 days from September 2020), were just above the balanced range; market conditions are generally considered balanced when inventories are in the 27-34 days of supply range.

Global bleached kraft paper markets remained relatively stable through the fourth quarter of 2020, particularly in North America, as steady demand stemming from COVID-19 for food grade packaging, was offset by the traditional seasonal slow-down in kraft paper demand.

Sales

CPPI's pulp shipments for the fourth quarter of 2020 totaled 258,000 tonnes, up 9,000 tonnes, or 4%, from the third quarter of 2020 and down 9,000 tonnes, or 3%, from the fourth quarter of 2019. Increased shipments compared to the previous quarter principally reflected a drawdown of inventory in the current quarter during the aforementioned Northwood downtime and, to a lesser extent, the timing of vessels quarter-over-quarter. Compared to the fourth quarter of 2019, the decrease in pulp shipments primarily reflected lower production levels in the current quarter, offset in part by a drawdown in pulp inventories in the current quarter and a rebuild of pulp inventories in the comparative period.

CPPI's average NBSK pulp unit sales realizations were broadly in line with both comparative periods, principally reflecting the timing of shipments (versus orders) and a stronger Canadian dollar. The rise in US-dollar list prices experienced in December, particularly to China, will largely be reflected in unit sales realizations in 2021, due to the time-lag between orders and shipments. Slightly higher BCTMP unit sales realizations in the fourth quarter of 2020 compared to the previous quarter, reflected a gradual and modest improvement in BCTMP demand and prices. Compared to the fourth quarter of 2019, average BCTMP unit sales realizations experienced a modest decline, primarily due to lower BCTMP US-dollar pricing in the current quarter combined with a stronger Canadian dollar.

Energy revenues were broadly in line with the prior quarter as decreased energy generation due to the aforementioned Northwood capital-related downtime was offset by seasonally higher energy prices in the current quarter. Compared to the fourth quarter of 2019, energy revenues were moderately down, primarily due to the decline in power generation at Northwood in the current quarter.

CPPI's paper shipments in the fourth quarter of 2020 were 35,000 tonnes, up 8,000 tonnes from the previous quarter, and up 9,000 tonnes from the fourth quarter of 2019, principally reflecting increased paper production in the current period, with fibre-related downtime in both comparative quarters.

Paper unit sales realizations in the fourth quarter of 2020 were moderately lower than both comparative periods, as relatively flat US-dollar prices were combined with changes in regional sales mix and a stronger Canadian dollar quarter-over-quarter.

Operations

Pulp production was 233,000 tonnes for the fourth quarter of 2020, up 6,000 tonnes, or 3%, from the third quarter of 2020, largely reflecting the quarter-over-quarter impact of downtime. In the current quarter, pulp production was reduced by the completion of Northwood's scheduled maintenance outage in October (approximately 25,000 tonnes), as well as the aforementioned extended outage on one production line at Northwood to enable the replacement of RB5's lower furnace (approximately 60,000 tonnes). In the third quarter of 2020, the combined impact of COVID-19 related curtailments at CPPI's Intercontinental and PG pulp mills, as well as scheduled maintenance outages at Taylor and Northwood, reduced pulp production by 68,000 tonnes. To a lesser extent, improved productivity at CPPI's PG and Taylor pulp mills in the current quarter more than offset several operational issues at the PG pulp mill in the prior quarter.

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

Compared to the fourth quarter of 2019, pulp production was down 53,000 tonnes, or 19%, primarily reflecting the Company's extended Northwood recovery boiler maintenance outage in the current period, offset in part, by increased production at CPPI's Intercontinental, PG and Taylor pulp mills quarter-over-quarter.

Pulp unit manufacturing costs were slightly lower than the prior quarter as the benefit of reduced fibre costs in the current quarter mostly offset seasonally higher energy costs, as well as increased energy usage and operating labour and maintenance spend, following COVID-19 related curtailments in the prior period. Compared to the fourth quarter of 2019, pulp unit manufacturing costs were modestly higher, principally reflecting lower production in the current quarter, partially offset by reduced fibre costs. Fibre costs were down compared to both comparative periods, primarily driven by an increased proportion of lower-cost sawmill residual chips, mostly due to higher operating rates at Canfor's sawmills.

Paper production for the fourth quarter of 2020 was 36,000 tonnes, up 12,000 tonnes from the previous quarter, and up 8,000 tonnes from the fourth quarter of 2019, largely due to increased operating days in the current period following PG Pulp and Paper mill downtime in both comparative periods.

Paper unit manufacturing costs were moderately lower than both comparative quarters, primarily reflecting the benefit of increased production in the current quarter, offset in part by increased spend on operating supplies and maintenance (timing-related). Slush pulp costs were largely unchanged quarter-over-quarter.

Unallocated and Other Items

(millions of Canadian dollars)		**Q4 2020**		Q3 2020		Q4 2019
Operating loss of Panels operations[58]	**$**	**(0.1)**	$	(0.3)	$	(1.1)
Corporate costs	**$**	**(13.0)**	$	(9.2)	$	(7.5)
Finance income (expense), net	**$**	**4.1**	$	(11.2)	$	(16.3)
Foreign exchange gain on term debt and duty deposits recoverable, net	**$**	**5.3**	$	1.1	$	3.9
Gain (loss) on derivative financial instruments	**$**	**4.3**	$	(7.9)	$	(0.5)
Other income, net	**$**	**18.7**	$	5.9	$	7.6

[58] The Panels operations included the Company's PolarBoard OSB plant and Tackama plywood plant which were sold in the fourth quarter of 2020. Prior to the sale both plants were non-operational through the 2020 and 2019 periods.

Corporate costs were $13.0 million for the fourth quarter of 2020, up $3.8 million from the third quarter of 2020, primarily reflecting higher incentive expenses tied to the marked improvement in lumber segment earnings in 2020, partially offset by lower legal fees associated with the Softwood Lumber dispute.

Net finance income of $4.1 million in the fourth quarter of 2020, compared to net finance expense of $11.2 million in the previous quarter and net finance expense of $16.3 million from the fourth quarter of 2019, largely reflected an increase in accrued interest income on recoverable duty deposits, following the finalization of CVD and ADD rates for POR1, and, to a lesser extent, lower interest expense associated with the Company's reduced debt levels.

In the fourth quarter of 2020, the Company recognized a foreign exchange gain on its US-dollar term debt held by Canadian entities, offset in part by a loss on US-denominated duty deposits receivable, both due to the strengthening Canadian dollar at the end of the quarter compared to the end of September 2020 (see further discussion on the term debt financing in the "Liquidity and Financial Requirements" section).

At times, the Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in energy costs, lumber prices, interest rates and foreign exchange rates. In the fourth quarter of 2020, the Company recognized a net gain of $4.3 million related to its derivative instruments, primarily reflecting realized gains on SEK forward foreign exchange contracts.

Other income, net, was $18.7 million in the fourth quarter of 2020, primarily reflecting the sale of the Company's previously idled PolarBoard OSB operations and its permanently closed Tackama plywood plant to Peak for proceeds of $10.0 million (paid in instalments over two years), and the receipt of insurance proceeds relating to CPPI's 2018 unscheduled downtime at Northwood, offset, to a degree, by unfavourable foreign exchange movements on US-dollar denominated working capital.

Other Comprehensive Income (Loss)

(millions of Canadian dollars)	Q4 2020	Q3 2020	Q4 2019
Defined benefit actuarial gain (loss), net of tax	**$ 28.5**	$ (13.0)	$ 3.9
Foreign exchange translation differences for foreign operations, net of tax	**(2.3)**	(12.1)	7.6
Other comprehensive income (loss), net of tax	**$ 26.2**	$ (25.1)	$ 11.5

In the fourth quarter of 2020, the Company recorded a gain of $39.1 million (before tax) in relation to changes in the valuation of the Company's employee future benefits plans, primarily reflecting a return on plan assets greater than the discount rate and favourable actuarial experience adjustments.

This compared to a loss of $17.9 million (before tax) recognized in the third quarter of 2020, largely attributable to a 0.3% decrease in the discount rate used to value the employee future benefit plans, offset in part by a return on plan assets greater than the discount rate. In the fourth quarter of 2019, the Company recorded a gain of $5.3 million (before tax) primarily reflecting a return on plan assets greater than the discount rate, partially offset by unfavourable actuarial experience adjustments, and, to a lesser extent, increased interest and service costs. For more information, see the "Employee Future Benefits" part of the "Critical Accounting Estimates" section later in this report.

In addition, the Company recorded an accounting loss of $2.3 million in the fourth quarter of 2020 related to foreign exchange differences for foreign operations due to a strengthening Canadian dollar relative to the US-dollar at the end of the quarter, offset in part by a weakening of the Canadian dollar relative to the SEK. This compared to a loss of $12.1 million in the previous quarter and a gain of $7.6 million in the fourth quarter of 2019.

CHANGES IN FINANCIAL POSITION

At the end of 2020, Canfor had $419.2 million of cash and cash equivalents.

(millions of Canadian dollars)	Q4 2020	Q3 2020	Q4 2019
Increase (decrease) in cash and cash equivalents[59]	**$ 232.6**	$ 32.5	$ (36.8)
Operating activities	**$ 360.1**	$ 422.7	$ 126.9
Financing activities	**$ (32.0)**	$ (308.8)	$ (91.3)
Investing activities	**$ (95.5)**	$ (81.4)	$ (72.4)

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

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

Operating Activities

Cash generated from operating activities was $360.1 million in the fourth quarter of 2020, compared to cash generated of $422.7 million in the previous quarter and cash generated of $126.9 million in the fourth quarter of 2019. The decrease in operating cash flows from the previous quarter primarily reflected unfavourable movements in non-cash working capital and higher income tax instalment payments in the current quarter more than offsetting improved cash earnings. The former primarily reflected an increase in finished lumber and log inventories at the end of the period, combined with higher trade accounts receivables, largely due to improved shipments, offset in part by a timing-related increase in accounts payable and accrued liabilities.

Compared to the fourth quarter of 2019, operating cash flows were up $233.2 million, primarily reflecting materially higher cash earnings in the current quarter, offset in part by unfavourable movements in non-cash working capital and to a lesser extent, higher income tax instalment payments.

Financing Activities

Cash used in financing activities was $32.0 million in the current quarter, compared to cash used of $308.8 million in the previous quarter and cash used of $91.3 million in the fourth quarter of 2019. In the fourth quarter of 2020 financing activities primarily reflected interest and lease payments. Financing activities in the third quarter of 2020 and the fourth quarter of 2019 also reflected payments of interest and leases, along with considerable repayments of amounts drawn on the Company's operating loan facilities.

Investing Activities

Cash used for investing activities was $95.5 million in the current quarter, compared to $81.4 million in the previous quarter and $72.4 million in the same quarter of 2019. Capital additions were $93.9 million, up $70.8 million from the previous quarter and up $24.2 million from the fourth quarter of 2019, with a significant increase in maintenance-of-business capital expenditures in the current quarter combined with the completion of several smaller high-returning capital projects following the pandemic and a marked improvement in lumber segment earnings. In the pulp and paper segment, capital expenditures were principally comprised of Northwood's RB5 capital upgrades, the completion of the construction of a new water treatment plant servicing CPPI's PG and Intercontinental pulp mills, as well as maintenance-of-business capital.

SPECIFIC ITEMS AFFECTING COMPARABILITY

Specific Items Affecting Comparability of Shareholder Net Income (Loss)

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

After-tax impact, net of non-controlling interests

(millions of Canadian dollars, except for per share amounts)	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Shareholder net income (loss), as reported	**$ 335.6**	**$ 218.1**	**$ 60.7**	**$ (70.0)**	$ (39.1)	$ (88.5)	$ (48.8)	$ (86.6)
Foreign exchange (gain) loss on term debt and duty deposits recoverable, net	**$ (5.7)**	**$ (1.0)**	**$ (4.7)**	**$ 13.1**	$ (3.6)	$ 2.1	$ (2.9)	$ 0.8
Countervailing and anti-dumping duty deposits, net of duties recoverable	**$ (69.7)**	**$ 37.0**	**$ 14.0**	**$ 32.4**	31.9	$ 39.1	$ 33.0	$ 26.5
(Gain) loss on derivative financial instruments	**$ (2.2)**	**$ 5.3**	**$ 2.9**	**$ (2.4)**	$ 0.2	$ 0.1	$ (1.7)	$ 25.4
Restructuring, mill closure and severance costs, net	**$ -**	**$ -**	**$ 10.5**	**$ 0.7**	$ 2.4	$ 4.7	$ 8.4	$ -
Net impact of above items	**$ (77.6)**	**$ 41.3**	**$ 22.7**	**$ 43.8**	$ 30.9	$ 46.0	$ 36.8	$ 52.7
Adjusted shareholder net income (loss)	**$ 258.0**	**$ 259.4**	**$ 83.4**	**$ (26.2)**	$ (8.2)	$ (42.5)	$ (12.0)	$ (33.9)
Shareholder net income (loss) per share (EPS), as reported	**$ 2.68**	**$ 1.74**	**$ 0.48**	**$ (0.56)**	$ (0.31)	$ (0.71)	$ (0.39)	$ (0.69)
Net impact of above items per share	**$ (0.62)**	**$ 0.33**	**$ 0.19**	**$ 0.35**	$ 0.25	$ 0.37	$ 0.29	$ 0.42
Adjusted net income (loss) per share	**$ 2.06**	**$ 2.07**	**$ 0.67**	**$ (0.21)**	$ (0.06)	$ (0.34)	$ (0.10)	$ (0.27)

OUTLOOK

Lumber Markets

Looking ahead, the strong North American lumber demand seen at the end of 2020 has continued into early 2021 and is anticipated to continue through the first half of 2021, supported by improved housing affordability, lean housing inventory, and an aging housing stock. The ongoing effects from the COVID-19 pandemic are forecast to continue to influence consumer spending habits while favorable demographics driven by the millennial generation entering prime home buying years will also facilitate this strong lumber demand. US housing starts in the first quarter of 2021 are estimated to outpace established levels of 2020, tracking closer to long-run historical averages. North American lumber demand is projected to be further supported by sustained high levels of repair and remodel activity as increases in existing home sales are estimated to boost spending in this sector, particularly in the first quarter of 2021. Increased supply into the North American market from a higher volume of European imports and growth in SYP production is not projected to be sufficient to offset the demand/supply gap created in 2020.

Offshore lumber market demand in Asia in the first quarter of 2021, particularly Japan, is anticipated to be steady as the region continues to recover from the impacts of COVID-19. In Europe, pricing in the first quarter of 2021 is anticipated to exceed pricing levels seen in the fourth quarter of 2020, reflecting similar trends to the North American market combined with the traditional lag in contract pricing. Demand throughout Europe in early 2021 is projected to be further supported by increased lumber usage in the construction sector as a result of ongoing green initiatives throughout the region.

Pulp and Paper Markets

In early 2021, global softwood kraft pulp market conditions have strengthened significantly in response to improved market fundamentals, particularly from China, where prices on the Shanghai Futures Exchange have surged in recent weeks. Reflecting this positive pricing momentum, CPPI has announced increases to its NBSK pulp list price to China of US$50 per tonne for January 2021 and a further US$120 per tonne for February 2021, to US$840 per tonne. It has also announced two consecutive price increases to North America of US$30 per tonne and US$115 per tonne, for January and February 2021, respectively, to US$1,300 per tonne. Notwithstanding the potential for higher pricing volatility in the coming months, CPPI currently projects the pricing environment to remain favourable for pulp producers through the first half of 2021.

Pulp and paper segment results in the first quarter of 2021 will reflect the impact of the RB5 capital-related outage at Northwood into mid-January (approximately 10,000 tonnes). With the RB5 rebuild now completed and with much healthier fibre inventories, a key focus of CPPI's kraft pulp mills in 2021, including Northwood, will be on improving operational reliability and closely managing manufacturing and fibre costs.

No major maintenance outages are planned for the first quarter of 2021; a maintenance outage is currently planned at the Intercontinental NBSK pulp mill in the second quarter of 2021, with a projected 12,000 tonnes of reduced NBSK pulp production. Smaller maintenance outages are scheduled for the third quarter of 2021 at the PG NBSK pulp mill and at the Taylor BCTMP mill with a projected 5,000 tonnes of reduced NBSK pulp production and projected 5,000 tonnes of reduced BCTMP production, respectively.

Bleached kraft paper demand is currently anticipated to be relatively stable in the first quarter of 2021 as COVID-19 led demand for bleached kraft paper products is projected to continue in the near-term, particularly for paper products that meet food grade specifications. A maintenance outage is currently planned at CPPI's paper machine in the third quarter of 2021 with a projected 5,000 tonnes of reduced paper production.

CRITICAL ACCOUNTING ESTIMATES

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

Employee Future Benefits

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

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

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

	December 31, 2020		December 31, 2019	
	Defined Benefit Pension Plans	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Discount rate	**2.7%**	**2.7%**	3.0%	3.0%
Rate of compensation increases	**3.0%**	**n/a**	3.0%	n/a
Initial medical cost trend rate	**n/a**	**5.0%**	n/a	5.5%
Ultimate medical cost trend rate	**n/a**	**4.5%**	n/a	4.5%
Year ultimate rate is reached	**n/a**	**2025**	n/a	2022

Assumed discount rates, medical cost trend rates and mortality assumptions have a significant effect on the accrued benefit obligation and related plan assets. In addition, the average life expectancy of a 65-year-old at December 31, 2020 is between 21.2 years and 24.3 years. As at December 31, 2020, the weighted average duration of the defined benefit obligation, which reflects the average age of the plan members, is 13.4 years. The weighted average duration of the other benefit plans is 13.0 years.

Deferred Reforestation

Canfor accrues an estimate of its future liability to perform forestry activities, defined to mean those silviculture treatments or activities that are carried out to ensure the establishment of a free-growing stand of young trees, including logging road rehabilitation on its forestry tenures in BC and Alberta. An estimate is recorded in the financial statements based on the number of hectares of timber harvested in the period and the estimated costs of fulfilling Canfor's obligation. Payments in relation to reforestation are expected to occur over periods of up to 15 years (the significant majority occurring in the first seven years) and have been discounted accordingly at risk-free rates ranging from 0.2% to 0.9%. The actual costs that will be incurred in the future may vary based on, among other things, the actual costs at the time of silviculture activities.

Deferred Taxes

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

Asset Retirement Obligations

Canfor records the estimated fair value of a liability for asset retirement obligations, such as landfill closures, in the period when it is incurred. For landfill closure costs, the fair value is determined using estimated closure costs discounted over the estimated useful life. Payments relating to landfill closure costs are expected to occur at periods ranging from 2 to 50 years and have been discounted at risk-free rates ranging from 0.2% to 1.2%. The actual closure costs and periods of payment may differ from the estimates used in determining the year-end liability. On initial recognition, the fair value of the liability is added to the carrying amount of the associated asset and amortized over its useful life. The liability is accreted over time through charges to earnings and reduced by actual costs of settlement.

Environmental Remediation Costs

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

Asset Impairments

Canfor reviews the carrying values of its long-lived assets, including property, plant and equipment and right-of-use assets, on a regular basis as events or changes in circumstances may warrant. An impairment loss is recognized in net income (loss) at the amount that the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In 2020 an impairment of $5.4 million was recognized in the Company's consolidated statement of income (loss) as a result of the permanent closure of its Isle Pierre sawmill.

Impairment of Goodwill

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

Goodwill is allocated separately to each of the Company's cash generating units and tested at that level for impairment purposes. The recoverable amount of goodwill is determined based on an assessment of value in use, estimated using discounted cash flow models. Key assumptions used in the cash flow models for both the US and Europe include forecast prices and foreign exchange rates, which the Company's Management determined with reference to both internal and external publications. For the 2020 goodwill impairment assessment, a pre-tax discount rate of 8.0% was utilized for both regions, 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, at year end, with no impairment of goodwill required at December 31, 2020. If actual results are materially lower than the forecast assumptions, there is a possibility that an impairment of goodwill may be required in future periods.

Valuation of Log and Finished Product Inventories

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

RISKS AND UNCERTAINTIES

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

Capital Requirements

The forest products industry is capital intensive, and the Company regularly incurs capital expenditures to expand its operations, maintain its equipment, increase its operating efficiency and comply with environmental laws. The Company's total capital expenditures during 2020 were $201.5 million. The Company anticipates available cash and operating loans, as well as cash generated from operations, will be sufficient to fund its operating needs and capital expenditures.

Climate Change

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

Competitive Markets

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

Coronavirus Outbreak (COVID-19)

On March 11, 2020, the WHO declared the COVID-19 outbreak a pandemic. COVID-19's impact on global markets has been significant and in response, the Company announced a series of significant measures. For the lumber segment, these measures included extensive temporary capacity reductions across all three of the Company's sawmill operating regions during the second quarter of 2020 and contributed to the permanent closure of the Isle Pierre sawmill in the third quarter of 2020. In the pulp and paper segment, due to a shortage of economically viable fibre in the region caused by COVID-19's impact on sawmill operating rates, CPPI's Northwood pulp mill was curtailed for three weeks in the second quarter of 2020 and the PG pulp and paper and Intercontinental pulp mills were curtailed for four weeks in the third quarter of 2020. In addition to these measures, the Company and CPPI received a Canada Emergency Wage Subsidy ("CEWS") from the Government of Canada under its program to support eligible employers who experienced a meaningful reduction in revenue. The CEWS program enabled the Company to bring its employees back to work and restart its BC sawmills by covering a portion of employee wage costs.

Apart from the aforementioned downtime, as an essential service, the Company has continued to operate, albeit with some minor disruptions, increased safety protocols and additional cleaning and sanitizing activities. The Company continues to closely monitor the impacts of COVID-19, however, and should the duration, spread or intensity of the pandemic further develop, the supply chain, market pricing and customer demand could be further affected. These factors could impact the Company's operating plan, liquidity, cash flows, and the valuation of long-lived assets.

Currency Exchange Risk

At the consolidated level, the Company's operating results are sensitive to fluctuations in the exchange rate of the Canadian dollar to the US-dollar, as prices for the Company's products are denominated in US-dollars or linked to prices quoted in US-dollars. Therefore, an increase in the value of the Canadian dollar relative to the US-dollar reduces the amount of revenue in Canadian dollar terms realized by the Company from sales made in US-dollars, which in turn, reduces the Company's operating margin and the cash flow available.

The operating results of the Company's European subsidiary are also subject to foreign exchange fluctuations. Although Vida primarily transacts in its functional currency of SEK, some of its products are sold in US-dollars, GBP, AUD and EUR. Therefore, any increase in the value of the SEK relative to these currencies reduces the amount of revenue in SEK terms realized by the Company's European SPF lumber operations, which in turn reduces the operating margin and available cash flows.

Cyclicality of Product Prices

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

Employee Future Benefits

Canfor has several defined benefit plans, which provide pension and other post-retirement benefits to certain salaried and hourly employees. Pension plan benefits 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.

Cash payments required to fund the pension plan are determined through an actuarial valuation completed at least once every three years, with the most recent actuarial valuation for the largest plan completed as of December 31, 2019. Other non-pension post-retirement benefit plans are unfunded, and the Company makes payments as required to cover liabilities as they arise.

The funded surplus (deficit) of each defined benefit plan is calculated as the difference between the value of any plan assets and an actuarial estimate of future liabilities. Any deficit in the registered pension plans determined following an actuarial valuation must be funded in accordance with regulatory requirements, normally over 5 or 15 years. Some of the unregistered plans are also partially funded.

Through its pension funding requirements, Canfor is exposed to the risk of fluctuating market values for the securities making up the plan assets, and to changes in prevailing interest rates which determine the discount rate used in calculating the estimated future liabilities. The funding requirements may also change to the extent that other assumptions used are revised, such as inflation rates or mortality assumptions.

The Company utilizes investments in buy-in annuities to reduce its exposure to these risks. Future cash flows from the annuities match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations.

For Canfor’s pension benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would reduce the accrued benefit obligation, net of annuity assets, by an estimated $56.0 million and a one percentage point decrease in the discount rate would increase the accrued benefit obligation, net of annuity assets, by an estimated $68.9 million. These changes would only impact the Company’s funding requirements in years where a new actuarial funding valuation was performed and regulatory approval for a change in funding contributions was obtained.

Environmental Issues

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

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

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

Canfor has in place internal policies and procedures under which all its forestry and manufacturing operations are regularly audited for compliance with laws and accepted standards and with its environmental management system requirements. CPPI's pulp mills and Canfor's woodlands operations and wood product facilities employ environmental management systems and the pulp mills are certified under the ISO 14001 Environmental Management System Standard. Further, all (100%) of Canfor's forest tenures in Canada are third party certified to the *Sustainable Forestry Initiative* ("SFI"), or the *Forest Stewardship Council* ("FSC") sustainable forest management standards. Approximately 99% of the raw materials procured for Canfor Southern Pine operations in the United States are certified to the SFI Fiber Sourcing Standard. The Company's European SPF lumber operations comply with their internal environmental policies and employ environmental management systems, with raw materials certified through the *Swedish Forest Stewardship Council* ("SFSC") and *Program for the Endorsement of Forest Certification* ("PFEC"). In addition, there is governance in place over the European SPF lumber operations through various committees, including Vida's Board of Directors.

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

Fibre Cost and Availability

The Company's fibre costs are affected by a number of different factors which could have a significant impact on operating results. Lumber market fluctuations and log market speculative bidding each play a significant role in both fibre supply and costs. In Western Canada harvesting operations have transitioned away from MPB impacted timber stands (see "Forest Health" below for more commentary regarding MPB). The transition from dead MPB timber stands to higher quality timber stands could in some cases result in a reduction of harvesting and log handling costs, but these are expected to be countered by increased stumpage fees for the higher quality fibre, and higher log transportation, road construction and reforestation costs. The Annual Allocable Cut ("AAC") has been reduced in many areas, but in some cases, license AAC volumes have not yet been apportioned by Government, resulting in a log supply and demand imbalance. As a result, the existing manufacturing capacity continues to outstrip the available timber supply and until this imbalance is corrected, Canfor expects to see a continuation of higher log costs in Western Canada for the foreseeable future.

Canfor's ability to access timber could be impacted by unsettled land and title claims by various Indigenous Nations in BC. Recently passed legislation *(Declaration on the Rights of Indigenous People Act)* to implement the United Nations Declaration on the Rights of Indigenous Peoples commits the government to the achievement of free and informed consent of Indigenous peoples prior to approval of any resource-based project.

In addition, the Company's ability to harvest fibre for use in its operations could be adversely impacted by natural events such as forest fires, severe weather conditions or insect infestations. In the event that sufficient volumes of economically viable fibre cannot be provided to an operation, it may be necessary to close that operation for a period of time, or even permanently. Such closures could result in significant costs to the Company. The Company is not insured for loss of standing timber. Canfor has secured its fibre position in Western Canada relative to its existing sawmill capacity and no shortage of supply is anticipated at any of the Company's operations at this time.

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

Financial Risk Management and Earnings Sensitivities

Demand for forest products, both wood products and pulp and paper, is closely related to global business conditions and tends to be cyclical in nature. Product prices can be subject to volatile change. Canfor, like the majority of the Canadian forest products industry, competes in a global market and the majority of its products are sold in US-dollars. Consequently, changes in foreign currency relative to the Canadian dollar can impact Canfor's revenues and earnings.

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.

(a) Credit risk:

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

Financial instruments that are subject to credit risk include cash and cash equivalents, trade and other accounts receivable, and certain investments and advances. Contract assets are also subject to credit risk. Cash and cash equivalents include cash held through major Canadian and international financial institutions as well as temporary investments with an original maturity date, or redemption date, of three months or less.

Canfor utilizes credit insurance to mitigate the risk associated with some of its trade accounts receivables. As at December 31, 2020, approximately 44% of the outstanding trade accounts receivables are covered by credit insurance. Canfor's trade accounts receivable balance at December 31, 2020 is $363.7 million before a loss allowance of $4.3 million. At December 31, 2020, approximately 98% of the trade accounts receivable balance are within Canfor's established credit terms.

(b) Liquidity risk:

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

At December 31, 2020, Canfor had cash and cash equivalents of $419.2 million, with $12.3 million drawn on its operating loans and facilities, leaving $938.6 million available and undrawn. As a result, at December 31, 2020, Canfor had available liquidity of $1,357.8 million, accounts payable and accrued liabilities of $666.9 million, and term debt of $676.8 million. For details of the Company's term debt obligations and maturities refer to the "Other Commitments" section of this document.

(c) Market risk:

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

(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 from time to time use interest rate swaps to reduce its exposure to interest rate risk associated with financial obligations bearing variable interest rates (see "Derivative Financial Instruments" section later in this document).

As noted earlier in this section (under "Employee Future Benefits"), Canfor is also exposed to interest rate risk in relation to the measurement of the Company's pension liabilities.

(ii) *Currency risk:*

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

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax: (i) loss (gain) of approximately $3.4 million in relation to working capital balances denominated in US-dollars at year end (including cash, accounts receivable and accounts payable); and a (ii) gain (loss) of approximately $1.6 million in relation to term debt denominated in US-dollars at year end.

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.

(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 (see "Derivative Financial Instruments" section later in this document).

Although Vida primarily transacts in its functional currency of SEK, certain products are sold in US-dollars, GBP, AUD and EUR. In addition, Vida holds US, GBP, AUD and EUR denominated operating loan and term debt facilities and limits its exposure to foreign exchange risk using forward foreign exchange contracts and foreign exchange options.

(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 three years (see "Derivative Financial Instruments" section later in this document).

Derivative Financial Instruments

Subject to risk management policies approved by its Board of Directors, Canfor, from time to time, uses derivative instruments, such as forward foreign exchange contracts and option contracts to reduce its exposure to future movements of exchange rates and interest rates, and futures and forward contracts to reduce its exposure to commodity prices and energy costs.

See section "Financial Risk Management and Earnings Sensitivities" for details of Canfor's derivative financial instruments outstanding at year end.

Earnings Sensitivities

Estimates of the sensitivity of Canfor's pre-tax results to currency fluctuations and prices for its principal products, based on 2021 forecast production and year end foreign exchange rates, are set out in the following table:

(millions of Canadian dollars)	**Impact on annual pre-tax earnings**
Western SPF lumber – US$10 change per Mfbm[60,61]	$ 33
SYP lumber – US$10 change per Mfbm[60,61]	$ 21
European SPF lumber – SEK100 change per Mfbm[60,61]	$ 19
Softwood Lumber Duties – 5% change	$ 36
Pulp – US$10 change per tonne [62]	$ 10
Canadian dollar – 1% change per US dollar[62,63]	$ 15
Canadian dollar – 1% change per SEK[63]	$ 2

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

Forest Health

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

In Alberta, detection surveys in 2020 have indicated a steady rate of MPB spread in certain areas while declining populations in others. The largest active beetle populations can be found in the West Central portion of the Province, particularly within the Jasper National Park boundary and along the adjacent eastern slopes of the Rocky Mountains. An accelerated harvest of susceptible pine on the Canfor Forest Management Agreement ("FMA") area since 2009 in conjunction with government control efforts, has largely contained the spread in this area and recent surveys indicate a very low rate of spread. MPB populations are now largely at endemic levels in the Northwest portion of the Province. Subsequently, pine mortality in areas north of the Peace River, including the Canfor quota area, has been extensive and harvesting objectives continue to be focused on the salvage of the remaining dead pine prior to expiration of its economic shelf life.

As the shelf life of the impacted stands have reached their expiry, all of the TSA and Tree Farm Licenses ("TFL") that received a temporary AAC uplift are now having their AAC adjusted downward. Some Northern Alberta harvest rates have been temporarily increased to deal with the rising MPB infestation and additional temporary increases could be made for the same reason in other areas of the province. The significant AAC increase approved for the quota area has maximized the opportunity to harvest infected pine stands before significant reduction in log quality occurs. In addition, the Alberta Government has committed funds for the rehabilitation of dead pine stands that have not been harvested due to merchantability limitations.

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

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

The impact of the infestation on Canfor's operations continues to be manageable in the short-term and the Company has taken steps to minimize its exposure to reductions in annual allowable harvests and to ensure a sufficient supply for its existing operations.

Government and Other Regulations

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

Indigenous Relations

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

In December 2020, the Government of Canada tabled Bill C-15, which is the federal government's response to implementing the United Nations' *Declaration on the Rights of Indigenous People Act*. The Bill is proceeding through the legislative process and could undergo changes before becoming legislation.

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

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

Presently, Indigenous title has not been established by law in any areas overlapping Canfor's tenure areas; however, Indigenous rights continue to exist over traditional territories, and Canfor cannot assure that this will not affect its timber harvesting rights. Forest harvesting operations are continuing to proceed under these current requirements. The Government of BC delegates procedural aspects of consultation to tenure holders, including Canfor, and Canfor works to establish productive and mutually beneficial relationships with Indigenous Nations whose traditional territories overlap Canfor operating areas. The Government of BC has also taken steps to improve certainty and access to timber resources through interim agreements with Indigenous Nations that include timber rights. Canfor holds numerous agreements with individual Indigenous Nations whereby it manages and/or purchases their timber.

The impacts of BC's *Declaration on the Rights of Indigenous Peoples Act*, the federal government's Bill C-15 and the William decision on the timber supply from Crown lands and on Canfor's operations is unknown at this time, and

Canfor does not know if the decision will lead to changes in BC or federal laws or policies. However, as issues relating to Indigenous rights and title develop and be resolved in Canadian courts, Canfor will continue to engage, cooperate and exchange information and views with Indigenous Nations and Government to foster good relationships and minimize risks to Canfor's tenures and operational plans.

Information Technology

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

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

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

Labour Agreements and Competition for Professional Skilled Labour

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

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

The contract with the Public and Private Workers of Canada ("PPWC"), which represents workers at Canfor's Mackenzie operation, expired on June 30, 2019. As the sawmill was indefinitely curtailed before the contract expired, an agreement was reached with the PPWC to postpone negotiations until the status of the sawmill changes.

In 2017 Canfor negotiated its labour agreement with UNIFOR at its Grande Prairie lumber operation; the new agreement expires October 1, 2022. Canfor Pulp Ltd. negotiated its collective agreements with UNIFOR and PPWC at its PG operations in 2017; both labour agreements are set to expire on April 30, 2021.

Maintenance Obligations and Facility Disruptions

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

Residual Fibre Revenues

Wood chips are a residual product of Canfor's lumber manufacturing process and, in Canada, are primarily sold to CPPI. These chips are the principal raw material utilized by CPPI in its pulp manufacturing operations. Canfor has two Fibre Supply Agreements with CPPI, which contain pricing formulas that currently result in CPPI paying Canfor a price for wood chips based on pulp markets and CPPI's product mix. In 2020, Canfor provided approximately 68% of CPPI's chip requirements. The current pricing under these agreements expires June 30, 2021, and may be amended as necessary to ensure it is reflective of market conditions. If market conditions caused CPPI to cease pulp operations for an extended period of time, Canfor would have a limited market and/or reduced value for its chip supply and this could affect its ability to run its sawmills economically. Similarly, if lumber market conditions or fibre availability were such that Canfor or other suppliers were unable to provide the current volume of chips to CPPI as a result of AAC reductions, lower sawmill production or sawmill closures, whether temporary or permanent, CPPI's chip supply, chip cost and production results could be materially affected.

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

Sales of sawdust and shavings are made primarily to other customers. To enhance fibre utilization in northern BC, Canfor has three wood fuel pellet plants in the BC Interior: a facility in Houston, BC, owned and operated in partnership with Pinnacle Pellet Inc. and the Moricetown Indian Band, and facilities in Chetwynd, BC and Fort St. John, BC, owned in partnership with Pacific BioEnergy.

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

Softwood Lumber Agreement

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

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

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

In early 2020, the DOC announced the preliminary results for the first period of review and on November 24, 2020, finalized the rates. The Company's final CVD rate was determined to be 2.94% for 2017 and 2.63% for 2018 (versus a cash deposit rate of 13.24%), while the final ADD rate was 1.99% for the entire first period of review (versus a cash deposit rate of 7.28% and estimated accrual rate of 2.6%). The DOC's final combined duty rate of 4.62%

applies to the Company's Canadian lumber shipments destined to the US from December 1, 2020 until completion of the administrative review for the second period of review (anticipated in 2021).

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

Species at Risk

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

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

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

Stumpage Rates

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

The BC Government is scheduled to make its next annual update to the MPS on July 1, 2021. Further changes to the BC Interior market driven stumpage system and resultant stumpage rates could have a material impact on Canfor's business. The Alberta Government will be reviewing their provincial stumpage rates (timber dues); however, the Company is not aware of any planned material changes at this point in time.

Transportation Services

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

Wood Dust Management

The wood products industry and government regulators continue to make the management of combustible wood dust within sawmill manufacturing facilities a high priority. Specifically, Canfor continues to take extensive steps to mitigate the risks of a combustible dust incident in our facilities, including significant capital investment, a formalized wood dust control program, and extensive employee training. Regulatory agencies across the Province of BC, including WorkSafe BC, Technical Safety BC, and the Office of the Fire Commissioner have implemented various regulatory and inspection initiatives related to wood dust management. While these initiatives remain active in place today, inspectional activity has begun to normalize as wood products manufacturers have implemented and maintained robust wood dust management programs. Nonetheless, additional regulatory initiatives up to and including stop work conditions within the industry have occurred and remain a possibility.

OUTSTANDING SHARE DATA

At February 24, 2021, there were 125,219,400 common shares issued and outstanding.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related consolidated financial statements was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ended December 31, 2020 and have concluded that they are effective.

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

Other than the aforementioned, there were no changes in the Company's internal controls over financial reporting during the year ended December 31, 2020 that materially affected, or would be reasonably likely to materially affect, such controls.

Based upon their evaluation of these controls for the year ended December 31, 2020, the CEO and CFO have concluded that these controls are operating effectively.

Additional information about the Company, including its 2020 Annual Information Form, is available at www.sedar.com or at www.canfor.com.