2021

FINANCIAL STATEMENTS

CANFOR CORPORATION

MANAGEMENT'S RESPONSIBILITY

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

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

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

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

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

March 1, 2022

"*Donald B. Kayne*"

Donald B. Kayne
President and Chief Executive Officer

"*Patrick A. J. Elliott*"

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

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canfor Corporation

Opinion

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

- the consolidated balance sheets as at December 31, 2021 and December 31, 2020
- the consolidated statements of income for the years then ended
- the consolidated statements of other comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Assessment of the recoverable amounts of the Western Canadian lumber operations and the pulp and paper segment

Description of the matter

We draw attention to Notes 3, 5 and 30 to the financial statements. The Entity identified indicators of impairment for its Western Canadian lumber operations and for its pulp and paper segment and performed impairment tests to estimate the recoverable amounts. The Entity has recorded impairment losses of $198.5 million and $95.0 million related to the Western Canadian lumber operations in the lumber segment and the pulp assets within the pulp and paper segment, respectively, for the year ended December 31, 2021. The recoverable amounts are determined based on an assessment of value in use. Significant assumptions used in determining value in use include future production volumes, commodity prices, log, fibre and production costs and discount rates.

Why the matter is a key audit matter

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

How the matter was addressed in the audit

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

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

Evaluation of the measurement of accrued benefit obligations

Description of the matter

We draw attention to Notes 3 and 13 to the financial statements. The Entity has recorded net retirement benefit obligations of $175.7 million which consists of accrued benefit obligations of $900.4 million, offset by the fair market value of plan assets of $724.7 million. The accrued benefit obligations are based on actuarial determinations. In determining the estimated future costs, the Entity's significant assumptions include discount rates, mortality assumptions and health care cost trend rates.

Why the matter is a key audit matter

We identified the evaluation of the measurement of the accrued benefit obligations as a key audit matter given the magnitude of the accrued benefit obligations and the reliance on actuarial assumptions. In addition, significant auditor judgment was required in evaluating the results of our audit procedures due to the sensitivity of the accrued benefit obligations to minor changes in significant assumptions.

How the matter was addressed in the audit

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

- We assessed the professional competence, experience and objectivity of the actuarial specialists engaged by the Entity to estimate the accrued benefit obligations using actuarial methods and assumptions including mortality and health care cost trend rates.
- On a select basis, we compared data provided by the Entity to the actuarial specialists to underlying source records.
- We evaluated the appropriateness of discount rate assumptions by assessing changes in the discount rates from the prior year against changes in published rates as compiled by our actuarial specialists.

Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2021 Canfor Corporation Annual Report".

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

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

We obtained Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2021 Canfor Corporation Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is John Desjardins.

Vancouver, Canada
March 1, 2022

Canfor Corporation
Consolidated Balance Sheets

(millions of Canadian dollars)		**As at December 31, 2021**		As at December 31, 2020
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**1,354.8**	$	419.2
Accounts receivable - Trade		**430.4**		359.4
- Other		**84.1**		73.3
Inventories (Note 4)		**1,173.8**		839.9
Prepaid expenses and other		**120.3**		101.4
Total current assets		**3,163.4**		1,793.2
Property, plant and equipment (Note 5)		**1,812.7**		1,976.1
Right-of-use assets (Note 6(a))		**65.5**		79.3
Timber licenses (Note 7)		**313.2**		431.3
Goodwill and other intangible assets (Note 8)		**514.8**		543.5
Long-term investments and other (Note 9)		**304.3**		285.4
Total assets	**$**	**6,173.9**	$	5,108.8
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 10)	**$**	**730.2**	$	667.7
Operating loans (Note 11)		**18.7**		12.3
Current portion of deferred reforestation obligations (Note 14)		**58.3**		52.9
Current portion of term debt (Note 12)		**0.5**		13.9
Other current liability (Note 28(b))		**-**		38.6
Current portion of lease obligations (Note 6(b))		**21.9**		24.1
Income taxes payable		**252.0**		38.9
Total current liabilities		**1,081.6**		848.4
Term debt (Note 12)		**245.5**		662.9
Retirement benefit obligations (Note 13)		**205.5**		233.4
Lease obligations (Note 6(b))		**49.2**		60.5
Deferred reforestation obligations (Note 14)		**54.6**		61.8
Other long-term liabilities (Note 15)		**31.0**		35.0
Put liability (Note 27)		**156.2**		170.0
Deferred income taxes, net (Note 21)		**341.2**		403.1
Total liabilities	**$**	**2,164.8**	$	2,475.1
EQUITY				
Share capital (Note 16)	**$**	**982.2**	$	987.9
Contributed surplus and other equity		**(130.9)**		(127.4)
Retained earnings		**2,586.8**		1,227.3
Accumulated other comprehensive income		**45.9**		119.7
Total equity attributable to equity shareholders of the Company		**3,484.0**		2,207.5
Non-controlling interests (Note 17)		**525.1**		426.2
Total equity	**$**	**4,009.1**	$	2,633.7
Total liabilities and equity	**$**	**6,173.9**	$	5,108.8

Commitments and Contingencies (Note 25) and **Subsequent Events** (Notes 20, 28(c)(d) and 29)

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

APPROVED BY THE BOARD

"R.S. Smith"
Director, R.S. Smith

"The Hon. J.R. Baird"
Director, The Hon. J.R. Baird

Canfor Corporation
Consolidated Statements of Income

(millions of Canadian dollars, except per share data)	Years ended December 31, **2021**	2020
Sales	**$ 7,684.9**	$ 5,454.4
Costs and expenses		
Manufacturing and product costs	**4,173.3**	3,538.8
Freight and other distribution costs	**701.0**	645.3
Countervailing and anti-dumping duty expense, net (Note 29)	**100.4**	18.8
Amortization	**376.8**	380.9
Selling and administration costs	**147.1**	127.9
Restructuring, mill closure and other items, net (Note 20)	**(15.3)**	15.4
Asset impairments (Note 30)	**293.5**	-
	5,776.8	4,727.1
Operating income	**1,908.1**	727.3
Finance expense, net (Note 18)	**(24.1)**	(36.2)
Foreign exchange gain on term debt	**6.3**	4.2
Foreign exchange loss on duty deposits recoverable, net	**(4.4)**	(7.2)
Loss on derivative financial instruments (Note 27)	**(16.1)**	(4.1)
Other income, net (Note 19)	**27.0**	36.1
Net income before income taxes	**1,896.8**	720.1
Income tax expense (Note 21)	**(438.0)**	(160.2)
Net income	**$ 1,458.8**	$ 559.9
Net income attributable to:		
Equity shareholders of the Company	**$ 1,341.6**	$ 544.4
Non-controlling interests (Note 17)	**117.2**	15.5
Net income	**$ 1,458.8**	$ 559.9
Net income per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 16)	**$ 10.74**	$ 4.35

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

Canfor Corporation
Consolidated Statements of Other Comprehensive Income (Loss)

(millions of Canadian dollars)	Years ended December 31, **2021**	2020
Net income	**$ 1,458.8**	$ 559.9
Other comprehensive income (loss)		
Items that will not be reclassified subsequently to net income:		
Defined benefit plan actuarial gains, net (Note 13)	**46.9**	12.2
Income tax expense on defined benefit plan actuarial gains, net (Note 21)	**(13.2)**	(3.3)
	$ 33.7	$ 8.9
Items that may be reclassified subsequently to net income:		
Foreign exchange translation of foreign operations, net of tax	**(73.8)**	53.8
Other comprehensive income (loss), net of tax	**(40.1)**	62.7
Total comprehensive income	**$ 1,418.7**	$ 622.6
Total comprehensive income attributable to:		
Equity shareholders of the Company	**$ 1,298.4**	$ 606.8
Non-controlling interests (Note 17)	**120.3**	15.8
Total comprehensive income	**$ 1,418.7**	$ 622.6

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

Canfor Corporation
Consolidated Statements of Changes in Equity

(millions of Canadian dollars)	Years ended December 31, 2021	2020
Share capital		
Balance at beginning of year	**$ 987.9**	$ 987.9
Share purchases (Note 16)	**(5.7)**	-
Balance at end of year	**$ 982.2**	$ 987.9
Contributed surplus and other equity		
Balance at beginning of year	**$ (127.4)**	$ (82.8)
Put liability (Note 27)	**(3.5)**	(44.6)
Balance at end of year	**$ (130.9)**	$ (127.4)
Retained earnings		
Balance at beginning of year	**$ 1,227.3**	$ 674.3
Net income attributable to equity shareholders of the Company	**1,341.6**	544.4
Defined benefit plan actuarial gains, net of tax	**30.6**	8.6
Dissolution of non-controlling interest (Note 17)	**0.8**	-
Share purchases (Note 16)	**(13.5)**	-
Balance at end of year	**$ 2,586.8**	$ 1,227.3
Accumulated other comprehensive income		
Balance at beginning of year	**$ 119.7**	$ 65.9
Foreign exchange translation of foreign operations, net of tax	**(73.8)**	53.8
Balance at end of year	**$ 45.9**	$ 119.7
Total equity attributable to equity shareholders of the Company	**$ 3,484.0**	$ 2,207.5
Non-controlling interests		
Balance at beginning of year	**$ 426.2**	$ 423.6
Net income attributable to non-controlling interests	**117.2**	15.5
Defined benefit plan actuarial gains attributable to non-controlling interests, net of tax	**3.1**	0.3
Distributions to non-controlling interests (Note 17)	**(19.7)**	(13.2)
Dissolution of non-controlling interest (Note 17)	**(1.7)**	-
Balance at end of year (Note 17)	**$ 525.1**	$ 426.2
Total equity	**$ 4,009.1**	$ 2,633.7

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

Canfor Corporation
Consolidated Statements of Cash Flows

(millions of Canadian dollars)	Years ended December 31, 2021	2020
Cash generated from (used in):		
Operating activities		
Net income	**$ 1,458.8**	$ 559.9
Items not affecting cash:		
Amortization	**376.8**	380.9
Income tax expense	**438.0**	160.2
Change in long-term portion of deferred reforestation obligations, net	**(7.4)**	4.6
Foreign exchange gain on term debt	**(6.3)**	(4.2)
Foreign exchange loss on duty deposits recoverable, net	**4.4**	7.2
Adjustment to accrued duties (Note 29)	**11.9**	(153.8)
Changes in mark-to-market value of derivative financial instruments (Note 27)	**2.9**	(0.5)
Employee future benefits expense	**10.8**	11.1
Finance expense, net	**24.1**	36.2
Asset impairments (Note 30)	**293.5**	-
Other, net	**(22.1)**	(2.6)
Defined benefit plan contributions, net	**(13.6)**	(13.5)
Income taxes received (paid), net	**(273.6)**	54.5
	2,298.2	1,040.0
Net change in non-cash working capital (Note 22)	**(383.3)**	33.6
	1,914.9	1,073.6
Financing activities		
Operating loan drawings (repayments), net (Note 11)	**8.0**	(371.3)
Repayments of term debt, net (Note 12)	**(422.8)**	(8.2)
Payments of lease obligations (Note 6(b))	**(25.3)**	(24.2)
Finance expenses paid	**(25.1)**	(46.1)
Share purchases (Note 16)	**(19.2)**	-
Cash distributions paid to non-controlling interests (Note 17)	**(19.7)**	(13.2)
	(504.1)	(463.0)
Investing activities		
Additions to property, plant and equipment and intangible assets, net (Notes 5 and 8)	**(428.2)**	(201.5)
Consideration paid for Bergs sawmill assets (Note 28(a))	**-**	(58.7)
Proceeds on sale of Vavenby forest tenure	**-**	56.5
Phased acquisition of Elliott (Note 28(b))	**(38.2)**	(46.3)
Other, net	**(2.0)**	3.1
	(468.4)	(246.9)
Foreign exchange loss on cash and cash equivalents	**(6.8)**	(4.6)
Increase in cash and cash equivalents*	**935.6**	359.1
Cash and cash equivalents at beginning of year*	**419.2**	60.1
Cash and cash equivalents at end of year*	**$ 1,354.8**	$ 419.2

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

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

1. Reporting Entity

Canfor Corporation is a company incorporated and domiciled in Canada and listed on The Toronto Stock Exchange. The address of the Company's registered office is 100-1700 West 75th Avenue, Vancouver, British Columbia, Canada, V6P 6G2. The consolidated financial statements of the Company as at and for the year ended December 31, 2021 comprise the Company and its subsidiaries, hereinafter referred to as "Canfor" or "the Company." Significant subsidiaries include Canfor Southern Pine, Inc. ("CSP"), which is wholly owned, as well as Canfor Pulp Products Inc. ("CPPI") and the Vida Group ("Vida"), of which Canfor owned 54.8% and 70.0%, respectively, at December 31, 2021.

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

2. Basis of Preparation

Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on March 1, 2022.

Basis of measurement

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

Use of estimates and judgments

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

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

- Note 4 – Inventories;
- Note 5 – Property, Plant and Equipment;
- Note 6 – Leases;
- Note 7 – Timber Licenses;
- Note 8 – Goodwill and Other Intangible Assets;
- Note 9 – Long-Term Investments and Other;
- Note 13 – Employee Future Benefits;
- Note 14 – Deferred Reforestation Obligations;
- Note 15 – Asset Retirement Obligations;
- Note 21 – Income Taxes;
- Note 28 – Acquisitions;
- Note 29 - Countervailing and Anti-Dumping Duties; and
- Note 30 – Asset Impairments.

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

3. Significant Accounting Policies

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

Basis of consolidation

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

Associates are those entities in which Canfor exercises significant influence, but not control, over financial and operating policies. Unless circumstances indicate otherwise, significant influence is presumed to exist when Canfor holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are recognized initially at cost. The consolidated financial statements include Canfor's share of the post-acquisition income and expenses and equity movement of these equity accounted investees. Joint ventures are accounted for using the equity method of accounting.

Business combinations

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

Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and liquid money market instruments that are readily convertible into known amounts of cash within three months or less from the date of acquisition, and are valued at amortized cost, which approximates market value. Cash is presented net of unpresented cheques. When the amount of unpresented cheques is greater than the amount of cash, the net amount is presented as cheques issued in excess of cash on hand. Interest is earned at variable rates dependent on the amount, credit quality and term of the Company's deposits.

Financial instruments

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

Classification and measurement of financial assets

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

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

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

Classification and measurement of financial liabilities

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

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

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

Impairment

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

Inventories

Inventories include logs, lumber, engineered wood and other lumber-related products, pulp, paper, wood pellets, chips, and materials and supplies. These are measured at the lower of cost and net realizable value and are presented net of applicable write-downs. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. The Company estimates the net realizable value of finished goods inventories based on actual and forecasted sales orders, as well as outlook prices and forecast exchange rates for the period over which the inventories are expected to be sold. Outlook prices are determined using Management's estimates at the end of the period, and may differ from the actual prices at which the inventories are sold.

Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses recognized upon initial classification as held for sale, as well as subsequent gains and losses on remeasurement, are recognized in net income. Impairment losses are allocated first to goodwill, if applicable, and then to the remaining assets held for sale on a pro-rata basis, excluding assets that are subject to other measurement requirements in accordance with Canfor's other accounting policies. Once classified as held for sale, intangible assets and property, plant and equipment, are no longer amortized or depreciated.

Leases

Lease definition

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

Measurement of right-of-use assets and lease obligations

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

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

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

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

Recognition exemptions

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

Property, plant and equipment

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

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

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

Amortization is recognized in net income on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, as set out in the table below. Land is not amortized. The majority of Canfor's amortization expense for property, plant and equipment is recognized in manufacturing and product costs.

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

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

Timber licenses

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

Other intangible assets

Goodwill

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

Computer software

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

Government assistance

Government assistance relating to the acquisition of property, plant and equipment is recorded as a reduction of the cost of the asset to which it relates, with any amortization calculated on the net amount. Government grants related to income are recognized as income or a reimbursement of costs on a systematic basis over the periods necessary to match them with the related costs which they were intended to compensate, unless the conditions for the grant are met after the related expenses have been recognized. In this case, the grant is recognized when it becomes receivable.

Asset impairment

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

An impairment loss is recognized in net income at the amount the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of cash inflows from other assets or groups of assets (cash-generating unit).

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

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

Employee future benefits

Defined contribution plans

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

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

Defined benefit plans

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

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

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

Provisions

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

Asset retirement obligations

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

Deferred reforestation obligations

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

Restructuring

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

Share-based compensation

Canfor has one share-based compensation plan. Compensation expense is recognized for Canfor's Deferred Share Unit ("DSU") Plan when the DSUs are granted, with a corresponding increase to the liability. The liability is remeasured at each reporting date and at settlement date, with any changes in the fair value of the liability recognized as a compensation expense or recovery in net income. The fair value of the DSUs is determined with reference to the market price of Canfor's shares as at the date of valuation.

Revenue recognition

Canfor's revenues are derived from the sale of lumber, engineered wood and other lumber-related products, pulp, paper, residual fibre, logs, wood pellets and energy. Revenue is measured based on the consideration specified in a contract with a customer, net of applicable sales taxes, returns, rebates and discounts and after eliminating sales within the Company. Revenue is recognized when the Company transfers control of products to customers.

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

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

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

Income taxes

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

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

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

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Investment tax credits are credited to manufacturing and product costs in the period in which it becomes reasonably assured that the Company is entitled to them. Unused investment tax credits are recorded as other current or long-term assets in the Company's consolidated balance sheet, depending upon when the benefit is expected to be received.

Foreign currency translation

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

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

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

Segment reporting

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

Change in significant accounting policy

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

4. Inventories

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

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

For the year ended December 31, 2021, a $2.4 million inventory net write-down expense was recognized for the pulp and paper segment (2020 – $8.5 million net write-down recovery), resulting in an inventory provision for finished pulp and raw materials of $4.6 million at December 31, 2021 (December 31, 2020 – $2.2 million).

Inventory expensed in 2021 and 2020 is included in 'Manufacturing and product costs' and 'Amortization' on the consolidated statement of income.

5. Property, Plant and Equipment

(millions of Canadian dollars)		Land		Pulp and paper mills		Solid wood operations[2]		Logging assets and other equipment		Construction in progress		Total
Cost												
Balance at January 1, 2020	$	57.7	$	1,725.8	$	2,697.0	$	254.4	$	94.4	$	4,829.3
Additions[1]		-		2.1		1.1		-		214.9		218.1
Acquisitions (Notes 28(a)(b))		0.3		-		85.9		-		0.7		86.9
Disposals		(0.5)		(23.8)		(155.4)		(17.5)		-		(197.2)
Reclass to assets held for sale		-		-		(67.6)		(0.6)		-		(68.2)
Transfers		0.5		104.0		114.6		5.5		(224.6)		-
Effect of movements in exchange rates		0.4		-		36.9		(0.1)		1.4		38.6
Balance at December 31, 2020	$	58.4	$	1,808.1	$	2,712.5	$	241.7	$	86.8	$	4,907.5
Additions[1]		-		-		8.8		-		401.9		410.7
Disposals		-		(26.4)		(60.2)		(0.6)		-		(87.2)
Transfers		0.9		74.5		195.3		18.4		(289.1)		-
Effect of movements in exchange rates		(1.1)		-		(61.3)		-		(1.3)		(63.7)
Balance at December 31, 2021	$	58.2	$	1,856.2	$	2,795.1	$	259.5	$	198.3	$	5,167.3

(millions of Canadian dollars)		Land		Pulp and paper mills		Solid wood operations[2]		Logging assets and other equipment		Construction in progress		Total
Amortization and Impairment												
Balance at January 1, 2020	$	(2.3)	$	(1,223.3)	$	(1,435.8)	$	(193.4)	$	-	$	(2,854.8)
Amortization for the year		-		(75.2)		(236.3)		(15.6)		-		(327.1)
Disposals		0.6		23.2		143.2		17.4		-		184.4
Reclass to assets held for sale		-		-		67.1		0.6		-		67.7
Transfers		-		-		0.3		(0.3)		-		-
Effect of movements in exchange rates		-		-		(1.7)		0.1		-		(1.6)
Balance at December 31, 2020	$	(1.7)	$	(1,275.3)	$	(1,463.2)	$	(191.2)	$	-	$	(2,931.4)
Amortization for the year		-		(80.1)		(229.0)		(14.4)		-		(323.5)
Disposals		-		23.9		48.9		0.6		-		73.4
Asset impairment (Note 30)		-		(95.0)		(94.5)		-		-		(189.5)
Transfers		-		-		0.1		(0.1)		-		-
Effect of movements in exchange rates		-		-		16.4		-		-		16.4
Balance at December 31, 2021	$	(1.7)	$	(1,426.5)	$	(1,721.3)	$	(205.1)	$	-	$	(3,354.6)
Carrying Amounts												
At January 1, 2020	$	55.4	$	502.5	$	1,261.2	$	61.0	$	94.4	$	1,974.5
At December 31, 2020	$	56.7	$	532.8	$	1,249.3	$	50.5	$	86.8	$	1,976.1
At December 31, 2021	**$**	**56.5**	**$**	**429.7**	**$**	**1,073.8**	**$**	**54.4**	**$**	**198.3**	**$**	**1,812.7**

[1] Net of capital expenditures by CPPI that are financed by government grants.
[2] Solid Wood operations include those sawmills, pellet plants, engineered wood and other lumber-related product plants, plywood and oriented strand board plants that are consolidated on a line-by-line basis.

6. Leases

(a) Right-of-Use Assets

(millions of Canadian dollars)		Land		Pulp and paper mills		Solid wood operations		Logging assets and other equipment		Facilities and other		Total
Cost												
Balance at January 1, 2020	$	1.5	$	7.5	$	72.2	$	7.9	$	25.3	$	114.4
Additions and acquisitions		0.3		0.5		34.7		1.6		1.7		38.8
Disposals and transfers		(0.4)		-		(7.8)		(2.6)		(0.1)		(10.9)
Effect of movements in exchange rates		-		-		(1.5)		-		0.6		(0.9)
Balance at December 31, 2020	$	1.4	$	8.0	$	97.6	$	6.9	$	27.5	$	141.4
Additions		0.2		1.4		12.8		2.7		2.4		19.5
Disposals and transfers		-		(0.2)		(12.2)		(0.9)		(4.8)		(18.1)
Effect of movements in exchange rates		-		-		(1.1)		-		(0.8)		(1.9)
Balance at December 31, 2021	$	1.6	$	9.2	$	97.1	$	8.7	$	24.3	$	140.9
Amortization												
Balance at January 1, 2020	$	(1.1)	$	(5.0)	$	(24.2)	$	(3.6)	$	(12.0)	$	(45.9)
Amortization for the year		(0.1)	$	(1.0)	$	(19.2)	$	(2.1)	$	(3.6)	$	(26.0)
Disposals and transfers		0.3		-		7.3		1.6		-		9.2
Effect of movements in exchange rates		-		-		0.8		-		(0.2)		0.6
Balance at December 31, 2020	$	(0.9)	$	(6.0)	$	(35.3)	$	(4.1)	$	(15.8)	$	(62.1)
Amortization for the year		(0.1)		(1.4)		(19.1)		(1.9)		(3.6)	$	(26.1)
Disposals and transfers		-		0.1		8.9		0.9		2.2		12.1
Effect of movements in exchange rates		-		0.1		0.3		-		0.3		0.7
Balance at December 31, 2021	$	(1.0)	$	(7.2)	$	(45.2)	$	(5.1)	$	(16.9)	$	(75.4)
Carrying Amounts												
At January 1, 2020	$	0.4	$	2.5	$	48.0	$	4.3	$	13.3	$	68.5
At December 31, 2020	$	0.5	$	2.0	$	62.3	$	2.8	$	11.7	$	79.3
At December 31, 2021	**$**	**0.6**	**$**	**2.0**	**$**	**51.9**	**$**	**3.6**	**$**	**7.4**	**$**	**65.5**

(b) Lease Obligations

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

(millions of Canadian dollars)		**As at December 31, 2021**		As at December 31, 2020
Within one year	**$**	**24.3**	$	27.2
Between one and five years		**43.9**		54.8
Beyond five years		**7.6**		8.9
Total undiscounted lease obligations	**$**	**75.8**	$	90.9

Interest expense on lease obligations for 2021 was $3.2 million (2020 – $4.0 million) and is included in 'Finance expense, net' on the consolidated statement of income.

Operating lease expenses relating to short-term and low-value leases not included in the measurement of lease obligations for 2021 were $5.9 million (2020 – $4.1 million). Variable lease expenses not included in the measurement of lease obligations for 2021 was $0.2 million (2020 – $0.2 million).

Total cash outflows for leases in 2021 were $31.4 million, including $6.1 million for short-term and low-value leases, as well as variable lease expenses (2020 – $28.5 million and $4.3 million, respectively).

7. Timber Licenses

(millions of Canadian dollars)		
Cost		
Balance at January 1, 2020	$	809.4
Reclass to assets held for sale		(127.2)
Balance at December 31, 2020 and December 31, 2021	$	682.2
Amortization and Impairment		
Balance at January 1, 2020	$	(363.7)
Amortization for the year		(14.4)
Reclass to assets held for sale		127.2
Balance at December 31, 2020	$	(250.9)
Amortization for the year		(14.1)
Asset impairment (Note 30)		(104.0)
Balance at December 31, 2021	$	(369.0)
Carrying amounts		
At January 1, 2020	$	445.7
At December 31, 2020	$	431.3
At December 31, 2021	**$**	**313.2**

8. Goodwill and Other Intangible Assets

(millions of Canadian dollars)		Goodwill		Other intangible assets		Total
Cost						
Balance at January 1, 2020	$	393.3	$	105.1	$	498.4
Additions		-		3.4		3.4
Acquisitions (Notes 28(a)(b))		94.1		-		94.1
Effect of movement in exchange rates		12.1		(0.3)		11.8
Balance at December 31, 2020	$	499.5	$	108.2	$	607.7
Additions		-		7.0		7.0
Effect of movement in exchange rates		(22.5)		(0.1)		(22.6)
Balance at December 31, 2021	$	477.0	$	115.1	$	592.1

(millions of Canadian dollars)		Goodwill		Other intangible assets		Total
Amortization						
Balance at January 1, 2020	$	-	$	(51.1)	$	(51.1)
Amortization for the year		-		(13.4)		(13.4)
Effect of movement in exchange rates		-		0.3		0.3
Balance at December 31, 2020	$	-	$	(64.2)	$	(64.2)
Amortization for the year		-		(13.1)		(13.1)
Balance at December 31, 2021	$	-	$	(77.3)	$	(77.3)
Carrying amounts						
At January 1, 2020	$	393.3	$	54.0	$	447.3
At December 31, 2020	$	499.5	$	44.0	$	543.5
At December 31, 2021	**$**	**477.0**	**$**	**37.8**	**$**	**514.8**

Canfor's goodwill relates to its US and European subsidiaries and is denominated in US-dollars and SEK, respectively. Goodwill is allocated separately to each of the Company's cash generating units and tested at that level for impairment purposes. The recoverable amount of goodwill is determined based on an assessment of value in use, estimated using discounted cash flow models.

Key assumptions used in the cash flow models for both the US and Europe include forecast prices and foreign exchange rates, which Management determined with reference to both internal and external publications. For the 2021 goodwill impairment assessment, a discount rate of 9.0% (12.0% before tax) (2020 – 6.0%; 8.0% before tax) was utilized, based on the Company's current weighted average cost of capital for these regions.

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, 2021.

9. Long-Term Investments and Other

(millions of Canadian dollars)		**As at December 31, 2021**		As at December 31, 2020
Duty deposits recoverable, net (Note 29)	**$**	**188.4**	$	199.9
Other deposits, loans, advances and long-term assets		**49.0**		50.5
Other investments		**37.5**		18.0
Retirement benefit surplus (Note 13)		**24.0**		9.5
Deferred income taxes, net (Note 21)		**5.4**		7.5
	$	**304.3**	$	285.4

The duty deposits recoverable, net balance represents US-dollar countervailing duties ("CVD") and anti-dumping duties ("ADD") and duty cash deposits paid in excess of the calculated expense accrued at December 31, 2021, including interest receivable of $24.8 million (December 31, 2020 – $20.0 million), as well as a $46.5 million (US$36.7 million) receivable recognized in the fourth quarter of 2021 upon finalization of the CVD and ADD rates applicable to the second period of review (Note 29).

10. Accounts Payable and Accrued Liabilities

(millions of Canadian dollars)		**As at December 31, 2021**		As at December 31, 2020
Trade payables and accrued liabilities	**$**	**559.8**	$	505.9
Accrued payroll and related liabilities		**170.4**		161.8
	$	**730.2**	$	667.7

11. Operating Loans

(millions of Canadian dollars)		**As at December 31, 2021**		As at December 31, 2020
Canfor (excluding Vida and CPPI)				
Available operating loans:				
Operating loan facility	**$**	**775.0**	$	550.0
Revolving credit facility		**190.2**		200.0
Facilities for letters of credit		**70.0**		70.0
Total operating loan facilities		**1,035.2**		820.0
Letters of credit		**(67.8)**		(67.2)
Total available operating loan facilities - Canfor	**$**	**967.4**	$	752.8
Vida				
Available operating loans:				
Operating loan facilities	**$**	**71.3**	$	78.8
Overdraft facilities		**30.2**		22.2
Total operating loan facilities		**101.5**		101.0
Operating loan facilities drawn		**(18.7)**		(12.3)
Total available operating loan facilities - Vida	**$**	**82.8**	$	88.7
CPPI				
Available operating loans:				
Operating loan facility	**$**	**110.0**	$	110.0
Letters of credit		**(12.9)**		(12.9)
Total available operating loan facility - CPPI	**$**	**97.1**	$	97.1
Consolidated:				
Total operating loan facilities	**$**	**1,246.7**	$	1,031.0
Total operating loan facilities drawn	**$**	**(18.7)**	$	(12.3)
Total letters of credit	**$**	**(80.7)**	$	(80.1)
Total available operating loan facilities	**$**	**1,147.3**	$	938.6

On March 26, 2021, Canfor (excluding Vida and CPPI) repaid its Canadian-dollar denominated floating rate term debt of $225.0 million (Note 12) and in turn, increased the principal of its committed operating loan facility by $225.0 million, to $775.0 million, with no changes to the existing terms. In addition, on March 26, 2021, Canfor (excluding Vida and CPPI) cancelled its $200.0 million revolving credit facility.

On June 28, 2021, Canfor (excluding Vida and CPPI) repaid $185.0 million (US$150.0 million) of its US$200.0 million US-dollar denominated floating rate term debt (Note 12) and in turn, added a $190.2 million (US$150.0 million) committed revolving credit facility, which was undrawn as at December 31, 2021. On June 28, 2023, any amounts drawn on the committed revolving credit facility will be converted to US-dollar denominated floating rate term debt, with a maturity date of June 28, 2031.

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

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

Canfor (excluding Vida and CPPI) has a separate facility to cover letters of credit. At December 31, 2021, $65.4 million of letters of credit outstanding are covered under this facility with the balance of $2.4 million covered under Canfor's committed operating loan facility.

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 1.2% to 5.0%. Vida also has separate overdraft facilities with fixed interest rates ranging from 1.2% to 3.5%.

On December 15, 2021, CPPI extended the maturity date of its committed operating loan facility from April 6, 2023 to December 15, 2025. The terms of CPPI's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization and is based on lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin.

Canfor and CPPI's operating loan facilities have certain financial covenants, including maximum debt to total capitalization ratios. Vida is also subject to certain financial covenants, including minimum equity and interest coverage ratios. As at December 31, 2021, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their operating loan facilities. Substantially all borrowings of Vida and CPPI are non-recourse to other entities within the Company.

12. Term Debt

(millions of Canadian dollars)		**As at December 31, 2021**		As at December 31, 2020
Canfor (excluding Vida and CPPI)				
CAD$225.0 million, floating interest, repaid on March 26, 2021 (Note 11)	**$**	**-**	$	225.0
US$50.0 million, floating interest, repayable on June 28, 2031 (Note 11) (US$200.0 million at December 31, 2020)		**63.4**		254.7
US$100.0 million, fixed interest of 4.4%, repayable in three equal tranches on October 2, 2023, 2024 and 2025		**126.8**		127.3
Other		**4.6**		5.0
Vida				
SEK 55.0 million, floating interest, repaid on December 30, 2021		**-**		12.4
SEK 2.0 million, floating interest, repayable April 30, 2022		**0.3**		1.2
SEK 1.4 million, floating interest, repayable August 31, 2024		**0.2**		0.3
SEK 1.3 million, floating interest, repayable April 30, 2022		**0.2**		0.4
AUD 0.6 million, floating interest, repayable between January 23, 2022 and July 22, 2030		**0.5**		0.5
CPPI				
CAD$50.0 million, floating interest, repayable December 15, 2024		**50.0**		50.0
Term debt at end of year	**$**	**246.0**	$	676.8
Less: Current portion		**(0.5)**		(13.9)
Long-term portion	**$**	**245.5**	$	662.9

On June 28, 2021, $185.0 million (US$150.0 million) of Canfor's US$200.0 million US-dollar denominated floating rate term debt (excluding Vida and CPPI) was repaid, with the maturity date of the remaining $63.4 million (US$50.0 million) extended from January 2, 2027 to June 28, 2031.

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

Canfor's and CPPI's term debt (excluding Vida) is unsecured. Vida's term debt is secured by its property, plant and equipment. Canfor's and CPPI's borrowings (excluding Vida) are subject to certain financial covenants, including a maximum debt to total capitalization ratio. Vida's borrowings are subject to certain financial covenants, including minimum equity and interest coverage ratios. As at December 31, 2021, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their term debt.

Fair value of total term debt

At December 31, 2021, the fair value of the Company's term debt is $247.8 million (December 31, 2020 – $685.6 million), determined based on prevailing market rates for term debt with similar characteristics and risk profile.

13. Employee Future Benefits

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

Total cash payments for employee future benefits for 2021 were $46.2 million (December 31, 2020 – $44.0 million), consisting of cash contributed by Canfor to its funded pension plans, cash payments directly to beneficiaries for its unfunded other non-pension post-retirement benefit plans, and cash contributed to its defined contribution and other plans.

Defined benefit plans

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

As at December 31, 2021, Canfor has three registered defined benefit pension plans for which actuarial funding valuations are performed at least every three years. The largest pension plan underwent an actuarial valuation for funding purposes as at December 31, 2020, which was completed in 2021. The next actuarial valuation for funding purposes is currently scheduled for December 31, 2023, to be completed in 2024. The remaining non-registered pension plans also underwent actuarial valuations as at December 31, 2020, which were completed in 2021. In addition, Canfor has other non-contributory benefit plans that provide certain non-pension post-retirement benefits to its members. The actuarial valuations for the non-pension post-retirement benefit plans were conducted as at December 31, 2021.

Information about Canfor's defined benefit plans, in aggregate, is as follows:

Fair market value of plan assets	**2021**		2020	
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Beginning of year	**$ 765.9**	**$ -**	$ 751.1	$ -
Interest income on plan assets	**19.9**	**-**	22.1	-
Return on plan assets greater than discount rate	**12.1**	**-**	26.9	-
Employer contributions	**10.4**	**3.2**	11.5	2.0
Employee contributions	**0.3**	**-**	0.3	-
Benefit payments	**(47.1)**	**(3.2)**	(44.8)	(2.0)
Plan settlement	**(35.9)**	**-**	-	-
Administration costs	**(0.8)**	**-**	(0.8)	-
Other	**(0.1)**	**-**	(0.4)	-
End of year	**$ 724.7**	**$ -**	$ 765.9	$ -

Plan assets consist of the following:	**As at December 31, 2021**	As at December 31, 2020
Asset category	Percentage of Plan Assets	
Equity securities	**28%**	27%
Debt securities	**18%**	16%
Annuities	**53%**	56%
Cash and cash equivalents	**1%**	1%
	100%	100%

Accrued benefit obligations	**2021**		2020	
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Beginning of year	**$ 899.2**	**$ 86.4**	$ 891.9	$ 87.0
Current service cost	**8.0**	**1.1**	8.6	1.4
Interest cost	**23.4**	**2.2**	26.1	2.5
Benefit payments	**(47.1)**	**(3.2)**	(44.8)	(2.0)
Employee contributions	**0.3**	**-**	0.3	-
Plan settlement	**(35.2)**	**-**	-	-
Actuarial loss (gain)	**(31.5)**	**(3.3)**	17.5	(2.9)
Other	**(0.1)**	**0.2**	(0.4)	0.4
End of year	**$ 817.0**	**$ 83.4**	$ 899.2	$ 86.4

Of the defined benefit pension plan obligation of $817.0 million (December 31, 2020 – $899.2 million), $740.0 million (December 31, 2020 – $816.1 million) relates to plans that are wholly or partly funded and $77.0 million (December 31, 2020 – $83.1 million) relates to plans that are wholly unfunded, with letters of credit securing $59.5 million (December 31, 2020 – $60.0 million) of the unfunded liability.

The total obligation for the non-pension post-retirement benefit plans of $83.4 million (December 31, 2020 – $86.4 million) is unfunded.

Annuity contracts

In 2020 and 2021, no buy-in annuities were purchased by the Company. As at December 31, 2021, the plans hold $376.9 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.

On November 1, 2021, the Company settled all of the obligations for inactive members of one of its registered defined benefit pension plans and derecognized $35.2 million of the plan's accrued benefit obligation and $35.9 million of the plan's assets. The plan assets included $21.6 million of buy-in annuities that were converted to buy-out annuities upon settlement and $14.3 million in premium payments for additional buy-out annuities. As a result of this transaction, a loss of $0.7 million was recognized in the Company's consolidated statement of income in 2021.

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

	December 31, 2021		December 31, 2020	
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Fair market value of plan assets	**$ 724.7**	**$ -**	$ 765.9	$ -
Accrued benefit obligations	**(817.0)**	**(83.4)**	(899.2)	(86.4)
Funded status of plans – deficit	**$ (92.3)**	**$ (83.4)**	$ (133.3)	$ (86.4)
Other pension plans	**(5.8)**	**-**	(4.2)	-
Total accrued benefit liability, net	**$ (98.1)**	**$ (83.4)**	$ (137.5)	$ (86.4)

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

	December 31, 2021		December 31, 2020	
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Retirement benefit surplus	**$ 24.0**	**$ -**	$ 9.5	$ -
Retirement benefit obligations	**(122.1)**	**(83.4)**	(147.0)	(86.4)
Total accrued benefit liability, net	**$ (98.1)**	**$ (83.4)**	$ (137.5)	$ (86.4)

At December 31, 2021 and December 31, 2020, certain defined benefit pension plans are in a surplus position reflecting the return on plan assets, actuarial gains and employer contributions to the pension plans during 2021 and 2020. The plans with a net retirement surplus have been classified as non-current assets on the balance sheet.

Components of pension cost

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

	2021		2020	
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Recognized in net income				
Current service cost	**$ 8.0**	**$ 1.1**	$ 8.6	$ 1.4
Administration cost	**0.8**	**-**	0.7	-
Interest cost	**3.5**	**2.2**	4.0	2.5
Settlement loss	**0.7**	**-**	-	-
Other	**-**	**0.2**	-	0.4
Total expense included in net income	**$ 13.0**	**$ 3.5**	$ 13.3	$ 4.3

(millions of Canadian dollars)	**2021** Defined Benefit Pension Plans	**2021** Other Benefit Plans	2020 Defined Benefit Pension Plans	2020 Other Benefit Plans
Recognized in other comprehensive income (loss)				
Actuarial gain – experience	**$ (0.3)**	**$ (0.2)**	$ (14.7)	$ (1.7)
Actuarial loss (gain) – demographic assumptions	**0.5**	**-**	(0.2)	(0.3)
Actuarial loss (gain) – financial assumptions	**(31.7)**	**(3.1)**	32.4	(0.9)
Return on plan assets greater than discount rate	**(12.1)**	**-**	(26.9)	-
Administrative costs greater than expected	**-**	**-**	0.1	-
Total gain in other comprehensive income (loss)	**$ (43.6)**	**$ (3.3)**	$ (9.3)	$ (2.9)

Significant assumptions

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

	December 31, 2021 Defined Benefit Pension Plans	**December 31, 2021** Other Benefit Plans	December 31, 2020 Defined Benefit Pension Plans	December 31, 2020 Other Benefit Plans
Discount rate	**3.0%**	**3.0%**	2.7%	2.7%
Rate of compensation increases	**3.0%**	**n/a**	3.0%	n/a
Initial medical cost trend rate	**n/a**	**5.0%**	n/a	5.0%
Ultimate medical cost trend rate	**n/a**	**4.5%**	n/a	4.5%
Year ultimate rate is reached	**n/a**	**2025**	n/a	2025

In addition to the significant assumptions listed in the table above, the average life expectancy of a 65-year-old at December 31, 2021 is between 21.3 years and 24.3 years (December 31, 2020 – 21.2 years and 24.3 years). As at December 31, 2021, the weighted average duration of the defined benefit plan obligation, which reflects the average age of the plan members, is 12.8 years (December 31, 2020 – 13.4 years). The weighted average duration of the other benefit plans is 12.1 years (December 31, 2020 – 13.0 years).

Sensitivity analysis

Assumed discount rates and medical cost trend rates have a significant effect on the accrued retirement benefit obligation and related plan assets. A one percentage point change in these assumptions would have the following effects on the accrued retirement benefit obligation, including the impact of plan annuity assets, for 2021:

(millions of Canadian dollars)	1% Increase	1% Decrease
Defined benefit pension plan liabilities, net of annuity assets		
Discount rate	$ (49.8)	$ 61.4
Other benefit plan liabilities		
Discount rate	$ (9.8)	$ 11.7
Initial medical cost trend rate	$ 4.0	$ (4.0)

When taking into account the impact of annuities, 46% (December 31, 2020 – 48%) 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 15% (December 31, 2020 – 13%) is partially offset through the plan's investment in debt securities. As at December 31, 2021, estimated contribution payments of $10.3 million will be made to the Company's defined benefit pension plans in 2022 based on the last actuarial valuation for funding purposes.

Defined contribution and other plans

The total expense recognized in 2021 for Canfor's defined contribution plans was $12.7 million (December 31, 2020 – $11.6 million). Canfor contributes to various forest industry union benefit plans providing both pension and other retirement benefits. These plans are accounted for as defined contribution plans. Contributions to these plans, not included in the expense for defined contribution plans above, amounted to $19.9 million in 2021 (December 31, 2020 – $18.9 million).

14. Deferred Reforestation Obligations

The following table provides a reconciliation of the deferred reforestation obligations as at December 31, 2021 and December 31, 2020:

(millions of Canadian dollars)		**2021**		2020
Reforestation obligations at beginning of year	**$**	**114.7**	$	107.3
Expense for year		**44.1**		40.8
Accretion expense		**0.2**		0.9
Changes in estimates		**2.7**		(1.6)
Paid during the year, net		**(48.8)**		(32.7)
Reforestation obligations at end of year	**$**	**112.9**	$	114.7
Less: Current portion		**(58.3)**		(52.9)
Long-term portion	**$**	**54.6**	$	61.8

Payments during 2021 are net of government funding of $1.2 million (December 31, 2020 – $19.7 million).

The total undiscounted amount of the estimated cash flows required to settle the obligations at December 31, 2021 is $115.7 million (December 31, 2020 – $115.7 million), with payments expected to occur over 15 years. Due to the general long-term nature of the liability, the most significant area of uncertainty in estimating the provision is the future costs that will be incurred. The estimated cash flows have been adjusted for inflation and discounted using risk-free rates ranging from 0.8% to 1.5% at December 31, 2021 (December 31, 2020 – 0.2% to 0.9%).

15. Asset Retirement Obligations

The following table provides a reconciliation of the asset retirement obligations as at December 31, 2021 and December 31, 2020:

(millions of Canadian dollars)		**2021**		2020
Asset retirement obligations at beginning of year	**$**	**14.0**	$	11.6
Accretion expense		**0.2**		0.1
Reclass to liabilities held for sale		**-**		(0.3)
Changes in estimates		**(1.3)**		2.6
Asset retirement obligations at end of year	**$**	**12.9**	$	14.0
Less: Current portion		**(1.4)**		-
Long-term portion	**$**	**11.5**	$	14.0

Canfor's asset retirement obligations (excluding CPPI) represent estimated undiscounted future payments of $6.9 million to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur over periods ranging from 6 to 49 years and have been discounted at risk-free rates ranging from 1.3% to 1.7% (December 31, 2020 – 0.2% to 1.2%).

CPPI's asset retirement obligations include $10.8 million of estimated undiscounted future payments to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur over periods ranging from 1 to 30 years and have been discounted at risk-free rates ranging from 0.6% to 1.7% (December 31, 2020 – 0.2% to 1.2%).

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

It is possible that changes in future conditions could require a material change in the recognized amount of the asset retirement obligations. The asset retirement obligations balance is included in 'Accounts payable and accrued liabilities' and 'Other long-term liabilities' on the consolidated balance sheet.

16. Share Capital

Authorized

10,000,000 preferred shares, with a par value of $25 each.
1,000,000,000 common shares without par value.

Issued and fully paid

(millions of Canadian dollars, except number of shares)	2021 Number of Shares		2021 Amount	2020 Number of Shares		2020 Amount
Common shares at beginning of year	**125,219,400**	**$**	**987.9**	125,219,400	$	987.9
Common shares purchased	**(725,800)**		**(5.7)**	-		-
Common shares at end of year[3]	**124,493,600**	**$**	**982.2**	125,219,400	$	987.9

[3] Based on trade date.

The holders of common shares are entitled to vote at all meetings of shareholders of the Company, except meetings at which only holders of preferred shares would be entitled to vote. The common shareholders are entitled to receive dividends as and when declared on the common shares. The holders of preferred shares are not generally entitled to receive notice of, or to attend or vote at, general meetings of shareholders of the Company. Preferred shareholders are entitled to preference over the common shares with respect to payment of dividends and upon any distribution of assets in the event of liquidation, dissolution and winding-up of the Company. The Company does not have any preferred shares outstanding.

Basic net income per common share is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the period. The weighted average number of common shares outstanding for 2021 is 124,909,404 (December 31, 2020 – 125,219,400).

Normal course issuer bid

On June 16, 2021, the Company re-instituted its normal course issuer bid whereby it can purchase for cancellation up to 6,260,970 common shares, or approximately 5% of its issued and outstanding common shares as at June 10, 2021. The normal course issuer bid is set to expire on June 15, 2022.

During the year ended December 31, 2021, the Company purchased 725,800 common shares for $19.2 million (an average of $26.45 per common share).

As at December 31, 2021 and March 1, 2022 there were 124,493,600 common shares of the Company outstanding and Canfor's ownership interest in CPPI and Vida was 54.8% and 70.0%, respectively (December 31, 2020 – 54.8% and 70.0%).

17. Non-Controlling Interests

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

Summarized Balance Sheets:

Amounts presented below represent non-controlling % (millions of Canadian dollars)	**As at December 31, 2021**						As at December 31, 2020					
		Lumber[4,5,6]		CPPI		**Total**		Lumber[4,5]		CPPI		Total
Current assets	$	305.2	$	168.0	**$**	**473.2**	$	150.9	$	143.5	$	294.4
Non-current assets		131.0		212.1		**343.1**		156.8		272.3		429.1
Total assets	$	436.2	$	380.1	**$**	**816.3**	$	307.7	$	415.8	$	723.5
Current liabilities	$	111.7	$	68.1	**$**	**179.8**	$	70.4	$	73.4	$	143.8
Non-current liabilities		30.9		88.4		**119.3**		36.8		101.9		138.7
Total liabilities	$	142.6	$	156.5	**$**	**299.1**	$	107.2	$	175.3	$	282.5
Total equity	$	293.6	$	223.6	**$**	**517.2**	$	200.5	$	240.5	$	441.0
Total liabilities and equity	$	436.2	$	380.1	**$**	**816.3**	$	307.7	$	415.8	$	723.5

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

Amounts presented below represent non-controlling % (millions of Canadian dollars)	**Year ended December 31, 2021**			Year ended December 31, 2020		
	Lumber[4,6]	CPPI	**Total**	Lumber[4]	CPPI	Total
Sales	$ 531.3	$ 517.0	**$ 1,048.3**	$ 320.6	$ 447.3	$ 767.9
Net income (loss)	$ 137.3	$ (20.1)	**$ 117.2**	$ 25.6	$ (10.1)	$ 15.5
Other comprehensive income	-	3.1	**3.1**	-	0.3	0.3
Total comprehensive income (loss)	$ 137.3	$ (17.0)	**$ 120.3**	$ 25.6	$ (9.8)	$ 15.8
Dividends paid to non-controlling interests	$ 19.7	$ -	**$ 19.7**	$ 11.4	$ 1.8	$ 13.2

Summarized Statements of Cash Flows:

Amounts presented below represent non-controlling % (millions of Canadian dollars)	**Year ended December 31, 2021**			Year ended December 31, 2020		
	Lumber[4,6]	CPPI	**Total**	Lumber[4]	CPPI	Total
Cash flows from operating activities	$ 147.3	$ 67.2	**$ 214.5**	$ 39.6	$ 43.4	$ 83.0
Cash flows used in financing activities	$ (14.4)	$ (35.3)	**$ (49.7)**	$ (25.4)	$ (32.9)	$ (58.3)
Cash flows used in investing activities	$ (20.8)	$ (1.9)	**$ (22.7)**	$ (17.3)	$ (10.1)	$ (27.4)

[4] Lumber non-controlling interest includes non-controlling interest related to Vida (30%), Houston Pellet Limited Partnership (40%), CSP Moultrie Investment, LLC (5%), and Canfor Energy North Limited Partnership ("CENLP") (15%) for the period between January 1, 2021 and December 15, 2021.

[5] Lumber total equity includes a $7.9 million foreign exchange loss arising from the translation of foreign operations, recognized in 'Accumulated other comprehensive income' on the consolidated balance sheet (December 31, 2020 – $14.8 million foreign exchange gain).

[6] On December 15, 2021, Canfor acquired the remaining 15% of CENLP, bringing its ownership interest to 100%, resulting in an increase of $0.8 million and a decrease of $1.7 million to 'Retained earnings' and 'Non-controlling interests,' respectively, on the Company's consolidated balance sheet.

18. Finance Expense, Net

(millions of Canadian dollars)	**2021**	2020
Interest expense on borrowings	**$ (24.4)**	$ (45.1)
Interest expense on retirement benefit obligations, net (Note 13)	**(5.7)**	(6.5)
Interest income from duty deposits recoverable, net (Note 29)	**5.0**	15.8
Interest income	**1.6**	1.0
Other finance expenses	**(0.6)**	(1.4)
Finance expense, net	**$ (24.1)**	$ (36.2)

19. Other Income, Net

During 2021, CPPI received insurance proceeds of $8.8 million (2020 – $32.8 million) related to Northwood pulp mill's number five recovery boiler ("RB5") outage in 2018, included as a component of 'Other income, net' on the consolidated statement of income.

20. Restructuring, Mill Closure and Other Items, Net

On November 16, 2021, the Company completed the sale of its Fort Nelson forest tenure to Peak Fort Nelson Properties Ltd. for total proceeds of $30.0 million (to be paid over multiple years). As a result, the Company recognized a gain of $7.0 million in 'Restructuring, mill closure and other items, net' in the consolidated statement of income for the year ended December 31, 2021.

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

21. Income Taxes

The components of income tax expense are as follows:

(millions of Canadian dollars)	**2021**	2020
Current	**$ (502.5)**	$ (89.6)
Deferred	**64.5**	(70.6)
Income tax expense	**$ (438.0)**	$ (160.2)

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

(millions of Canadian dollars)	**2021**	2020
Income tax expense at statutory rate of 27.0% (2020 – 27.0%)	**$ (512.1)**	$ (194.4)
Add (deduct):		
Non-taxable income (loss) related to non-controlling interests	**0.1**	(0.2)
Entities with different income tax rates and other tax adjustments	**72.9**	33.7
Permanent difference from capital gains and losses and other non-deductible items	**1.1**	0.7
Income tax expense	**$ (438.0)**	$ (160.2)

In addition to the amounts recorded to net income, a tax expense of $13.2 million was recorded to other comprehensive income (loss) in relation to actuarial gains, net, on the defined benefit plans for the year ended December 31, 2021 (December 31, 2020 – $3.3 million).

For the year ended December 31, 2021, no tax recovery related to foreign exchange differences on translation of investments in foreign operations was recognized in other comprehensive income (loss) (December 31, 2020 – recovery of $6.3 million).

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

(millions of Canadian dollars)	**As at December 31, 2021**	As at December 31, 2020
Deferred income tax assets		
Accruals not currently deductible	**$ 48.1**	$ 47.9
Loss carryforwards	**2.3**	4.2
Retirement benefit obligations	**48.8**	58.8
Lease obligations	**18.9**	22.3
Goodwill and other intangible assets, net	**1.1**	5.4
Other	**28.9**	15.5
	$ 148.1	$ 154.1
Deferred income tax liabilities		
Depreciable capital assets	**$ (353.3)**	$ (440.7)
Untaxed reserves	**(54.9)**	(29.0)
Duty deposits recoverable, net	**(50.9)**	(54.0)
Right-of-use assets	**(17.3)**	(20.7)
Other	**(7.5)**	(5.3)
	$ (483.9)	$ (549.7)
Total deferred income tax liabilities, net	**$ (335.8)**	$ (395.6)
Less: Entities in a net deferred income tax asset position	**5.4**	7.5
Net deferred income tax liabilities	**$ (341.2)**	$ (403.1)

22. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)	**2021**	2020
Accounts receivable	**$ (103.3)**	$ (93.6)
Inventories	**(356.3)**	(23.2)
Prepaid expenses and other	**(24.1)**	(5.1)
Accounts payable and accrued liabilities, and current portion of deferred reforestation obligations	**100.4**	155.5
Net change in non-cash working capital	**$ (383.3)**	$ 33.6

23. Related Party Transactions

Canfor undertakes transactions with various related entities. These transactions are in the normal course of business, except where noted otherwise. The Jim Pattison Group is Canfor's largest shareholder with an ownership interest of 51.2% at December 31, 2021 (December 31, 2020 – 50.9%). During 2021, subsidiaries owned by The Jim Pattison Group provided lease, insurance and other services to Canfor totaling $4.9 million (December 31, 2020 – $4.9 million). At December 31, 2021, an outstanding balance of $0.2 million was due to subsidiaries owned by The Jim Pattison

Group and an outstanding balance of $0.1 million was owed from subsidiaries owned by The Jim Pattison Group (December 31, 2020 – no amounts outstanding).

During 2021, CPPI sold paper to subsidiaries owned by The Jim Pattison Group totaling $1.7 million (December 31, 2020 – $3.0 million). CPPI also made purchases from subsidiaries owned by The Jim Pattison Group totaling $0.6 million (December 31, 2020 – $0.7 million). At December 31, 2021, an outstanding balance of $0.1 million was owed to subsidiaries owned by The Jim Pattison Group (December 31, 2020 – no amounts outstanding).

Key management personnel

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

(millions of Canadian dollars)		**2021**		2020
Short-term benefits	**$**	**13.6**	$	10.3
Post-employment benefits		**3.1**		2.1
Share-based payments		**3.3**		2.2
	$	**20.0**	$	14.6

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

24. Segment Information

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

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

Sales between segments are accounted for at prices that approximate fair value. These include sales of residual fibre from the lumber segment to the pulp and paper segment for use in the pulp production process. Information regarding the operations of each reportable segment is included in the table below. The accounting policies of the reportable segments are described in Note 3.

The Company's interest-bearing liabilities are not considered to be segment liabilities, but rather are managed centrally by the treasury function. Other liabilities are not split by segment for the purposes of allocating resources and assessing performance.

(millions of Canadian dollars)		Lumber		Pulp & Paper		Unallocated & Other		Elimination Adjustment		Consolidated
Year ended December 31, 2021										
Sales from contracts with customers	**$**	**6,540.5**	**$**	**1,144.4**	**$**	**-**	**$**	**-**	**$**	**7,684.9**
Sales to other segments		**191.1**		**0.5**		**-**		**(191.6)**		**-**
Operating income (loss)		**2,019.6**		**(65.5)**		**(46.0)**		**-**		**1,908.1**
Amortization		**288.1**		**87.3**		**1.4**		**-**		**376.8**
Capital expenditures[7]		**344.5**		**78.7**		**5.0**		**-**		**428.2**
Identifiable assets		**3,752.3**		**767.8**		**1,653.8**		**-**		**6,173.9**
Year ended December 31, 2020										
Sales from contracts with customers	$	4,464.1	$	990.3	$	-	$	-	$	5,454.4
Sales to other segments		222.7		0.2		-		(222.9)		-
Operating income (loss)		816.0		(56.1)		(32.6)		-		727.3
Amortization		297.5		82.2		1.2		-		380.9
Capital expenditures[7]		125.4		73.3		2.8		-		201.5
Identifiable assets		3,542.4		887.5		678.9		-		5,108.8

[7] Capital expenditures represent cash paid for capital assets during the periods, excluding assets purchased as part of acquisitions (Notes 28(a)(b)). Pulp & Paper includes capital expenditures by CPPI that were partially financed by government grants.

Geographic information

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

(millions of Canadian dollars)			**2021**			2020
Sales by location of customer						
Canada	**9%**	**$**	**698.8**	10%	$	525.2
United States	**54%**		**4,155.9**	56%		3,055.6
Europe	**17%**		**1,293.7**	14%		780.5
Asia	**18%**		**1,370.9**	18%		979.2
Other	**2%**		**165.6**	2%		113.9
	100%	**$**	**7,684.9**	100%	$	5,454.4

(millions of Canadian dollars)			**As at December 31, 2021**			As at December 31, 2020
Property, plant and equipment, ROU assets, timber licenses, goodwill and other intangible assets by location						
Canada	**43%**	**$**	**1,172.9**	50%	$	1,503.9
United States	**35%**		**934.9**	27%		820.9
Europe	**22%**		**597.6**	23%		704.7
Asia and Other	**0%**		**0.8**	0%		0.7
	100%	**$**	**2,706.2**	100%	$	3,030.2

25. Commitments and Contingencies

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

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

(a) Capital Commitments

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

In addition to the DeRidder commitments, at December 31, 2021, Canfor had contractual obligations of $125.8 million (December 31, 2020 – $77.8 million) which includes commitments for the construction of capital assets and other working capital items. The majority of these commitments are expected to be settled over the following year. In addition, the Company has committed to leases of property, plant and equipment as outlined under Note 6.

(b) Canada Emergency Wage Subsidy

As a result of material revenue declines incurred by the Company in the first half of 2020 stemming from the coronavirus ("COVID-19") pandemic (see Note 26), the Company, including CPPI, recognized a Canada Emergency Wage Subsidy ("CEWS") of $38.1 million in 2020 as an offset to wage expense on the Company's consolidated statement of income.

26. Risks and Uncertainties

Financial risk management

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

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

Credit risk:

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

Financial instruments that are subject to credit risk include cash and cash equivalents, trade and other accounts receivable, and certain investments and advances. Contract assets are also subject to credit risk. Cash and cash equivalents include cash held through major Canadian and international financial institutions as well as temporary investments that are readily convertible into known amounts of cash within three months or less from the date of acquisition. The cash and cash equivalents balance at December 31, 2021 is $1,354.8 million (December 31, 2020 – $419.2 million).

Canfor utilizes credit insurance to mitigate the risk associated with some of its trade accounts receivable. As at December 31, 2021, approximately 56% (December 31, 2020 – 44%) of the outstanding trade accounts receivable are covered by credit insurance. Canfor's trade accounts receivable balance at December 31, 2021 is $434.7 million, before a loss allowance of $4.3 million (December 31, 2020 – $363.7 million before a loss allowance of $4.3 million).

At December 31, 2021, approximately 97% (December 31, 2020 – 98%) of the trade accounts receivable balance is within Canfor's established credit terms.

Liquidity risk:

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

At December 31, 2021, Canfor had cash and cash equivalents of $1,354.8 million (December 31, 2020 – $419.2 million), with $18.7 million drawn on its operating loans and facilities (December 31, 2020 – $12.3 million), leaving $1,147.3 million (December 31, 2020 – $938.6 million) available and undrawn. As a result, at December 31, 2021, Canfor had available liquidity of $2,502.1 million (December 31, 2020 – $1,357.8 million), accounts payable and accrued liabilities of $730.2 million (December 31, 2020 – $667.7 million), and term debt of $246.0 million (December 31, 2020 – $676.8 million).

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 use interest rate swaps to reduce its exposure to interest rate risk associated with financial obligations bearing variable interest rates. At December 31, 2021 and 2020, the Company had three fixed interest rate swaps at 0.3% outstanding, with a combined notional value of US$100.0 million, maturing on April 25, 2022.

(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 $0.9 million in relation to working capital balances denominated in US-dollars and Australian 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 and Australian dollars ("AUD") 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. At December 31, 2021 and December 31, 2020, the Company had no foreign exchange collar contracts outstanding.

The Company also sells certain products in British Pounds ("GBP"), AUD, Euros ("EUR"), and Norwegian krone ("NOK") and holds US, GBP, AUD and EUR denominated operating loan and term debt facilities (Notes 11 and 12) and limits its exposure to foreign exchange risk using forward foreign exchange contracts and foreign exchange options.

At December 31, 2021 and December 31, 2020, the following forward foreign exchange contracts were outstanding:

	As at December 31, 2021		
Maturity Date	**Notional Amount Currency**	**Notional Amount**	**Exchange Rates**
Forward Foreign Exchange Contracts		(millions)	(rate of SEK to notional currency)
0-6 months	GBP	**£35.0**	**11.94**
0-6 months	USD	**$35.0**	**8.83**
0-6 months	EUR	**€4.0**	**10.27**
0-3 months	NOK	**kr6.0**	**0.97**

	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

(iii) Commodity price risk:

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

Canfor had the following lumber futures contracts at December 31, 2021 and December 31, 2020:

	As at December 31, 2021		As at December 31, 2020	
Maturity Date	**Notional Amount**	**Average Rate**	Notional Amount	Average Rate
Lumber Futures Contracts	(MMfbm)	(US-dollars per Mfbm)	(MMfbm)	(US-dollars per Mfbm)
Future sales contracts				
0-6 months	**6.8**	**$904.5**	8.6	$654.5

(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. At December 31, 2021 and December 31, 2020, the Company had no energy fixed swaps or option contracts outstanding.

Capital management

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

Canfor's capital is comprised of net debt (cash) and shareholders' equity:

(millions of Canadian dollars)	**As at December 31, 2021**	As at December 31, 2020
Total debt (including operating loans)	**$ 264.7**	$ 689.1
Less: cash and cash equivalents	**(1,354.8)**	(419.2)
Net debt (cash)	**(1,090.1)**	269.9
Total equity	**4,009.1**	2,633.7
	$ 2,919.0	$ 2,903.6

The Company has certain financial covenants on its debt obligations, including a maximum debt to total capitalization ratio that is calculated by dividing total debt by shareholders' equity plus total debt. Debt obligations are held by various entities within the Canfor group and the individual debt agreements specify the entities within the group that are to be included in the covenant calculations. Canfor's strategy is to ensure it remains in compliance with all of its existing debt covenants, so as to ensure continuous access to capital. Canfor was fully in compliance with all its debt covenants for the years ended December 31, 2021 and December 31, 2020.

The Company manages its capital structure through rigorous planning, budgeting and forecasting processes, and ongoing management of operations, investments and capital expenditures. In 2021, the Company's management of capital primarily comprised of strategic acquisitions, maintenance of business capital, and working capital initiatives. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Coronavirus Outbreak

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

27. Financial Instruments

Canfor's cash and cash equivalents, trade and other accounts receivable, certain long-term investments and advances, accounts payable and accrued liabilities, other liabilities, operating loans, and term debt are classified as measured at amortized cost in accordance with IFRS 9. The carrying amounts of these instruments, excluding term debt, approximate fair value at December 31, 2021 and December 31, 2020.

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

The three levels of the fair value hierarchy are:

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

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

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

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

(millions of Canadian dollars)	Fair Value Hierarchy Level	**As at December 31, 2021**	As at December 31, 2020
Financial assets measured at fair value			
Investments	Level 1	**$ 36.1**	$ 17.3
Derivative financial instruments	Level 2	**-**	1.1
Duty deposits recoverable, net (Notes 9 and 29)	Level 3	**188.4**	199.9
		$ 224.5	$ 218.3
Financial liabilities measured at fair value			
Derivative financial instruments	Level 2	**$ 2.1**	$ 0.3
Put liability	Level 3	**156.2**	170.0
		$ 158.3	$ 170.3

Canfor invests in equity and debt securities, which are traded in an active market and valued using closing prices on the measurement date with any gains or losses recognized through net income.

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

At December 31, 2021, the fair value of derivative financial instruments includes a liability of $2.1 million (December 31, 2020 – asset of $1.1 million and liability of $0.3 million), which is included in 'Accounts payable and accrued liabilities' on the Company's consolidated balance sheet. The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

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

(millions of Canadian dollars)	**2021**	2020
Interest rate swaps	**$ -**	$ (0.4)
Lumber futures	**(12.7)**	(7.0)
Foreign exchange forward contracts	**(3.4)**	3.3
Loss on derivative financial instruments	**$ (16.1)**	$ (4.1)

At December 31, 2021, the fair value of duty deposits recoverable is a net asset of $188.4 million, recognized on the Company's consolidated balance sheet in 'Long-term investments and other' (Note 9) and adjusted to fair value through the recognition of interest in 'Finance expense, net' on the consolidated statement of income (Note 18).

During the year ended December 31, 2021, a loss of $3.5 million was recognized in 'Other equity' on the Company's consolidated balance sheet following remeasurement of the put liability (December 31, 2020 – $44.6 million). As a result of this remeasurement, combined with a foreign exchange gain of $17.3 million for the year ended December 31, 2021 (December 31, 2020 – loss of $13.5 million), the balance of the put liability was $156.2 million at December 31, 2021 (December 31, 2020 – $170.0 million).

28. Acquisitions

(a) Bergs Timber Production AB Sawmill Assets

On September 1, 2020, the Company's 70% owned subsidiary, Vida, completed the purchase of sawmill assets from Bergs Timber Production AB ("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. The acquisition of 100% of the sawmill assets was accounted for as a business combination under IFRS 3 *Business Combinations* ("IFRS 3") and is included in Canfor's lumber segment.

The following table summarizes the final recognized amounts of identifiable net assets acquired by Vida (at 100%) at the acquisition date (unchanged from preliminary amounts):

(millions of Canadian dollars)		
Property, plant and equipment	$	**43.1**
Right-of-use assets		**2.5**
Non-cash working capital, net (including inventory)		**14.6**
Deferred tax liability on fair value adjustments		**(3.2)**
Total net identifiable assets	$	**57.0**
Goodwill		**1.7**
Total consideration	$	**58.7**

Property, plant and equipment required significant fair value adjustments for purchase price accounting. Internal Management specialists, having the appropriate experience, determined the fair value of property, plant and equipment using the market comparison and cost technique, considering market prices for similar items when they are available, and depreciated replacement cost when appropriate.

Goodwill of $1.7 million has been recognized as part of the purchase, calculated as the excess of consideration over the fair value of the estimated identifiable assets and liabilities assumed and is attributable to expected future income and cash-flow projections and further diversification of Canfor's current product offering in Europe. Goodwill is not deductible for tax purposes.

(b) Elliott Sawmilling Co., LLC

On May 31, 2019, the Company completed the first of a two-phase purchase of Elliott Sawmilling Co., LLC ("Elliott") with an aggregate purchase price of US$110.5 million (paid in three instalments), including normalized working capital. The first instalment of $52.0 million (US$38.5 million) was paid upon closing of the first phase purchase in the second quarter of 2019. 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%, and on February 19, 2021, the Company paid $38.2 million (US$30.3 million, the third instalment) to settle the remaining consideration payable in connection with the purchase of Elliott.

(c) V-Timber AB

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

(d) Millar Western Sawmill Assets

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

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

29. Countervailing and Anti-Dumping Duties

In 2016, a petition was filed by the US Lumber Coalition to the US Department of Commerce ("DOC") and the US International Trade Commission ("ITC") alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers. Canfor was selected by the DOC as a "mandatory respondent" to the countervailing and anti-dumping investigations and is subject to company specific CVD and ADD rates. As a result of the DOC's investigation, CVD and ADD were imposed on the Company's Canadian lumber exports to the United States beginning in 2017, with cash deposits posted at an ADD rate of 7.28% and CVD rate of 13.24% (combined cash deposit rate of 20.52%) from 2017 to November 2020, at a combined cash deposit rate of 4.62% from December 1, 2020 until November 30, 2021, and at a combined cash deposit rate of 19.54% for the balance of 2021. As at December 31, 2021, Canfor has paid cumulative cash deposits of $682.5 million.

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

First Period of Review ("POR1")

Despite cash deposits being made at rates determined by the DOC in 2017 (20.52%), the final liability associated with duties is not determined until the completion of administrative reviews performed by the DOC. For the CVD rate, the first period of review was based on sales and cost data through 2017 and 2018, while the ADD rate was based off data from July 2017 to December 2018. For the first period of review, the Company accrued ADD expense at an estimated rate of 2.60% and recorded 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 2.60%). The DOC's final combined duty and cash deposit rate of 4.62% applied to the Company's Canadian lumber shipments destined to the United States from December 1, 2020 until the administrative review for the second period of review was completed on November 30, 2021.

Upon finalization of these POR1 rates, a net recovery of $140.5 million (US$106.6 million) was recognized in the Company's consolidated statement of income for the year ended December 31, 2020, with a corresponding net receivable included in 'Long-term investments and other' (Note 9) on the Company's consolidated balance sheet as at December 31, 2020, reflecting the difference between the accrual rate of 15.84% and the DOC's final combined rates established for POR1 (4.93% for 2017 and 4.62% for 2018).

Second Period of Review ("POR2")

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

Upon finalization of these POR2 rates, a net recovery of $48.7 million (US$36.7 million) was recognized in the Company's consolidated statement of income for the year ended December 31, 2021, with a corresponding net receivable included in 'Long-term investments and other' (Note 9) on the Company's consolidated balance sheet as at December 31, 2021, reflecting the difference between the accrual rate of 29.24% and the DOC's final combined rate established for POR2 (19.54%).

Third Period of Review ("POR3")

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 prior periods of review, while the Company was unable to estimate an applicable CVD rate separate from the cash deposit rate, ADD was expensed at an estimated rate of 5.00% for POR3, resulting in a combined CVD and ADD accrual rate of 18.24% for January 1 to November 30, 2020 (versus the cash deposit rate of 20.52%) and 7.63% for December 2020 (versus the cash deposit rate of 4.62%).

Subsequent to year-end, in January 2022, the DOC announced the preliminary results for POR3, which indicated that the Company's preliminary CVD and ADD rate for 2020 was 1.83% and 4.92%, respectively. Upon finalization of these rates (anticipated in the third quarter of 2022), a recovery, estimated at $88.8 million (US$66.5 million), will be recognized in the Company's consolidated financial statements to reflect the difference between the combined accrual rate and the DOC rates for POR3. In addition, once final, the Company's current combined cash deposit rate of 19.54% will be reset to the DOC rates for POR3 (currently estimated to be 6.75% based on the preliminary determination).

Fourth Period of Review ("POR4")

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

Summary

A summary of the various combined rates is as follows:

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

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

For accounting purposes, a net duty deposits recoverable of $188.4 million is included on the Company's consolidated balance sheet (Note 9) reflecting differences between the cash deposit rates and the Company's combined accrual rates for each period of review, including interest. For the year-ended December 31, 2021 the Company recorded a net duty expense of $100.4 million, comprised of the following:

Effective duties (millions of Canadian dollars)		**2021**
Cash deposits paid in 2021	**$**	**88.5**
Duty expense attributable to POR4 – ADD (7.00% versus cash deposit rate)[8,9]		**60.6**
Duty recovery attributable to POR2 – CVD (2.42% versus 13.24%)[10]		**(63.7)**
Duty expense attributable to POR2 – ADD (17.12% versus 16.00%)[11]		**15.0**
Duty expense, net	**$**	**100.4**

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

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

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

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

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

30. Asset Impairments

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

(millions of Canadian dollars)		**Lumber Segment**		**Pulp and Paper Segment**
Asset impairments				
Property, plant and equipment (Note 5)	**$**	**94.5**	**$**	**95.0**
Timber licenses (Note 7)		**104.0**		**-**
	$	**198.5**	**$**	**95.0**

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

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

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

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

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

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

31. Arbios Biotech

For the year ended December 31, 2021, Canfor has contributed $3.3 million to the Arbios Biotech joint venture (December 31, 2020 – $9.4 million) recognized as research and development related expenses within 'Manufacturing and product costs' in the consolidated statement of income.